The Economist

Has the Fed got it right?

Your insurer and your genes

New Orleans, two years on

Out-of-body experiences

Two queens of New York

August 26th–2nd 2007 www.economist.com

Putin's people

The spies who run Russia

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS
BUSINESS
Management
Business Education
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
BOOKS & ARTS
Style Guide
PEOPLE
Obituary
MARKETS & DATA
Weekly Indicators
Currencies
Rankings
Big Mac Index
Chart Gallery
DIVERSIONS
Correspondent's Diary
RESEARCH TOOLS
AUDIO
DELIVERY OPTIONS
E-mail Newsletters
Audio edition
Mobile Edition
RSS Feeds
Screensaver
CLASSIFIED ADS
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts
Reprints and Permissions
EIU onlinestore

Advertisement

Print Edition August 25th 2007

On the cover
The former KGB men who run Russia have the wrong idea about how to make it great: leader

Previous print editions
Aug 18th 2007
Aug 11th 2007
Aug 4th 2007
Jul 28th 2007
Jul 21st 2007

More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Advertisement

The world this week
Politics this week
Business this week
KAL's cartoon

Leaders
Russia's government
Putin's people

The America-India nuclear deal
Worse will come

Monetary policy
Hazardous times

Thailand's referendum
The long march back to the barracks

W.F. Deedes
In praise of a questing vole

Letters
On American politics, backdated options, Europe, intangible assets, La Paz

Briefing
Russia under Putin
The making of a neo-KGB state

United States
New Orleans
The slow recovery

Wildfires
Burn, baby, burn

Sanctuary
Not hiding but talking

Defence fraud
Creative billing

José Padilla
Enemy combated

Health in schools
Fat and getting fatter

Lexington
How mighty is the Penn?

The Americas
Peru
After disaster struck

Hurricane Dean
Hit and near miss

Mexico and the United States
Death in the desert

Canada, the United States and Mexico
Diverted by jelly-beans

Venezuela
Tuned up

Asia
Thailand
Not a vote for the generals

South Korea's presidential election
The bulldozer scrapes home

Myanmar
Fuelling discontent

Australia's uranium mines
The Indian exception

India, America and Japan
Democratic baggage

Pigs in China
Death on the farm

Business
Behold, telepresence
Far away yet strangely personal

Japanese department stores
Demise of the depato

China's coal mines
Bottoming out

America's funeral homes
Profiting from loss

Corporate chaplains
Praying for gain

Dutch telecoms
Small but nimble

Face value
Chief fiction officer

Correction: Schering-Plough

Briefing
Genetics, medicine and insurance
Do Not Ask or Do Not Answer?

Finance & Economics
Markets and the economy
Paper losses

Distressed-debt funds
Cashing in on the crash

Stock exchanges
Northern exposure

Emerging markets (1)
Full of eastern promise

Emerging markets (2)
A shrug not a shudder

Economics focus
Does America need a recession?

Science & Technology
Consciousness
Out of your mind, not out of your body

Epidemiology
Viral and virtual

Evolutionary psychology
Sex, shopping and thinking pink

Books & Arts
Evangelicals in America
The bond between God and power

Aviation
Snarling all the way to the bank

High society
The American invaders

Science
Eliciting why blood gives life

War in Afghanistan
Fighting the Tali-tubbies

German theatre: "Wallenstein"
If you like very long plays

Obituary
Brooke Astor and Leona Helmsley

Economic and Financial Indicators

Kazakhstan's parliamentary election
Life without parole

Bangladesh
Desperate measures

Middle East & Africa

Zimbabwe
Ripping the heart out of the heartlands

South Africa
In the (beetroot) soup, again

Liberia
Keeping the country afloat

Congo and Uganda
Do you want to share or to fight?

Israel
Heading for the promised land

Iran
Islamic Republic of Fear

Advertisement

Europe

Germany's trade unions
On their own track

Italian politics
Is it a bird? Is it a plane?

Greece's elections
Out of the ashes

Turkey and Iran
Too energetic a friendship

Britain

School standards
Marking the teachers

David Cameron's return
A flawed fight-back

Scottish politics
Wendy's whirlwind

Commercial property
Dizzying heights

Drunken British youngsters
How to sober them up

The Olympics and charities
Grabbing for gold

Technology and the internet
Pathfinder kids

Bagehot
Carnival queen

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

Central Asia
Not quite the pact that was

Nuclear safeguards
In pursuit of the undoable

Correction: Plymouth Rock

Overview

Output, prices and jobs

The Economist commodity-price index

Housing transaction costs

Trade, exchange rates, budget balances and interest rates

Markets

Pensions

Advertisement

Advertisement

Classified ads

Jobs
Urban and Housing Specialist for the Arab States
United Nations Human Settlements Programme Programme....

Business / Consumer
Announcement: Submissions for the 2007 round of the Global Development Awards and Medals Competition
....

Tenders
Request for Expressions of Interest
Untitled Document REQUEST FOR EXPRESSIONS OF INTE....

Property
Waterfront Villa for Yacht & Golf lovers
Island of Mallorca SW, Spain Direct sale of a luxurious waterfront ....

Jobs
International Tax Specialist
Senior level position within a recently established real estate investment and d....

Business / Consumer
UNIDO Technology Foresight Summit 2007
United Nations Industrial Development Organization (UNIDO)....

Sponsors' feature

About sponsorship »

An Economist Group business Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by =ECO PDF TEAM=
Thanks xxmama

Politics this week

Aug 23rd 2007
From The Economist print edition

EPA

In its first-ever referendum, **Thailand's** voters narrowly approved a new constitution drafted by a panel appointed by the military government, which took power in a coup last September. The vote paves the way for elections before the end of the year. But a party dominated by supporters of Thaksin Shinawatra, the ousted prime minister, may turn out to be a front-runner in the election, causing consternation in the army. See article

An indefinite curfew was imposed in Dhaka and five other cities in **Bangladesh** after three days of rioting. Sparked by a trivial incident at Dhaka University, protests spread to most university towns, as students called for the lifting of emergency rule and the restoration of democracy. See article

In parliamentary elections in **Kazakhstan**, the party of Nursultan Nazarbayev won all the contested seats. The Organisation for Security and Co-operation in Europe found flaws in the electoral arrangements. See article

After organising rare protests, against steep increases in fuel prices, some of **Myanmar's** leading dissidents, many of whom have spent much of the past two decades in prison, were arrested again. See article

After devastating flooding in **North Korea**, a planned summit between its leader, Kim Jong Il, and South Korea's president, Roh Moo-hyun, was postponed until October.

In **India**, the Communist parties, on which the ruling Congress-led coalition relies for a parliamentary majority, threatened to withdraw their support for the government if it proceeds with its nuclear co-operation deal with America. See article

In a referendum in the **Maldives**, voters supported a proposal for a presidential system, seen by the government as an endorsement of the president, Maumoon Abdul Gayoom, who has been in power for 29 years. The opposition alleged rigging, and the foreign minister became the latest reformist to quit Mr Gayoom's cabinet.

New concerns

In **Peru**, rescue attempts to find survivors in towns on the country's south coast wrecked by an earthquake that killed more than 500 people were followed by efforts to bring emergency aid to 100,000 people made homeless. See article

AP

Hurricane Dean, the first strong Atlantic storm of the year, killed about 20 people in the Caribbean, damaging houses and banana crops and forcing the postponement of Jamaica's election, due on August 27th. But it missed Cancún, from where thousands of tourists had fled. See article

Brazil's president, Luiz Inácio Lula da Silva, announced a $3.3 billion five-year plan to tackle violent crime in 11 cities, including building 160 new prisons, improving salaries and conditions for police, and more social programmes for poor youths.

After only six hours of debate, **Venezuela's** National Assembly unanimously approved radical constitutional changes that abolish presidential term limits and envisage a socialist economy. The assembly is made up solely of supporters of President Hugo Chávez, because the opposition boycotted its election in 2005. The new constitution will be put to a referendum later this year.

No holidays for some

Reeling from a series of scandals and the bungling of forest fires, **Greece's** prime minister called a snap general election for September 16th. Costas Karamanlis said his ruling New Democracy party needed a fresh mandate to tackle pension reform. See article

Georgia claimed that Russian jets invaded its airspace for the second time in a month. As before, Russia denied the claim.

A falling out

Iraq's prime minister, Nuri al-Maliki, rejected growing criticism from America of his government. The American ambassador to Iraq complained that political progress there had been “very disappointing”. But George Bush, in a speech warning Americans against “the allure of retreat”, called Mr Maliki “a good man with a difficult job”.

The Iraq Red Crescent confirmed that more than 500 people were killed in the co-ordinated suicide-bombing attack on the minority **Yazidi** community in north-west Iraq on August 14th. It was the single deadliest incident in Iraq since the American-led invasion in 2003.

The head of the UN refugee agency said that contingency plans were needed in case the exodus of people from **Zimbabwe** increases. Some 3m have already fled the deteriorating economic situation and political crackdown in the country, mainly to South Africa. See article

In **Niger**, Tuareg rebels of the Niger Movement for Justice claimed to have killed 17 soldiers in a clash in the uranium-rich northern desert. The nomadic Tuareg began a campaign against the government in February for a greater share of the nation's wealth.

Could have done much better

A summary of a 2005 report from the **CIA's** inspector-general into the agency's intelligence failures leading up to the September 11th 2001 attacks was released. Congressional legislation had required it to be made public. Among other things, the report revealed that the CIA's counter-terrorism units “did not work effectively together to understand the structure and operations of al-Qaeda”, allowing Khalid Sheikh Mohammed, the plot's alleged mastermind, to slip through the net.

José Padilla was found guilty of intending to carry out terrorist activities and giving material support to al-Qaeda. Mr Padilla, an American citizen, was arrested in 2002 for an alleged “dirty bomb” plot (that charge was eventually dropped). See article

A fire in an abandoned office block at the site of the **September 11th** attacks in New York killed two firemen. A criminal investigation was launched into the cause of the blaze, which broke out on the 17th floor of the building.

AP

The **Democratic** presidential contenders held another debate. The banter was broadcast from Iowa, which holds the first vote in the nominating cycle and where the Democratic race is pretty close.

The presidential **primary calendar** may be upset again. This time Michigan's state senate voted to bring forward the date of its party ballots to January 15th, ahead of all the other states bar Iowa and adding more pressure on New Hampshire to hold its poll even earlier.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Aug 23rd 2007
From The Economist print edition

Countrywide Financial, America's biggest private mortgage-lender which has been teetering on the brink of collapse in the current market turmoil, received a boost when **Bank of America** bought a $2 billion equity stake in it. The move was another shot in the arm for investors, who responded positively to the Federal Reserve's surprise decision to reduce the **discount rate** from 6.25% to 5.75% on August 17th and extend the terms of borrowing for such loans. To increase confidence in the system for discount loans, the Fed encouraged several of America's biggest banks, including Citigroup and JPMorgan, to tap into them.

The rate cut was part of a wider endeavour to stabilise money markets by **central banks**, which continued to provide short-term cash infusions to shore up liquidity. See article

Steady as she goes

The **Bank of Japan** held its benchmark interest rate at 0.5% because of the markets' volatility. It had indicated the rate would rise this month.

Questions were raised about the extent of the **German banking** system's vulnerability to the credit squeeze after a second bank in as many weeks was bailed out. The German association of savings banks said it was making €17.3 billion ($23.3 billion) available to a fund managed by **Sachsen**, a state bank in Saxony.

The Securities and Exchange Commission brought a lawsuit alleging fraud against a firm that manages short-term cash for hedge funds. **Sentinel Management** had earlier applied for bankruptcy protection, but proffered the “liquidity crisis” in the markets as the reason for its troubles.

Dubai Bourse made an unsolicited $4 billion offer for **OMX**, which operates exchanges in Nordic and Baltic countries. **NASDAQ**, which has made a lower offer, bolstered its bid by putting its 31% stake in the **London Stock Exchange**, accumulated during an abortive takeover effort, up for sale. After scrutinising Dubai's bid, Sweden's regulator said it could proceed. See article

Oil prices closed below $70 a barrel for the first time in almost two months as fears abated about the impact of Hurricane Dean on oil production in the Gulf of Mexico.

A good bet

MGM Mirage's share price surged on the news that **Dubai World** had agreed to take a 9.5% stake in the casino firm, which runs some of the best-known establishments in Las Vegas, including the Bellagio and the Luxor. Dubai's state holding company will also control 50% of MGM Mirage's vast CityCentre “urban metropolis” project on the Strip, which will incorporate apartments, shops and hotels when it opens in 2010.

In a potential challenge to iTunes' dominance of the market, Wal-Mart said its **online music store** would now also sell songs without digital rights-management protection. (Amazon is poised to launch a similar service.) Apple's iTunes began selling music free from DRM, which can be downloaded to other music players in addition to the iPod, earlier this year after its boss, Steve Jobs, called for a shake-up in the industry.

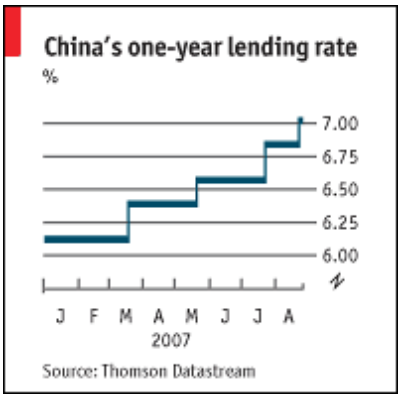
Shareholders in **Tribune**, the second-biggest American newspaper publisher, voted overwhelmingly in favour of a buy-out plan backed by **Sam Zell**, a property tycoon. However, the deal still faces obstacles, not least the viability of the highly leveraged $8.2 billion deal during the present squeeze in credit markets.

BHP Billiton reported a 28% increase in net profit for the year ending June 30th, to $13.5 billion. The mining company predicted that metal prices would continue to rise in the short term on the back of China's booming economy.

Chinese television began airing a series of programmes aimed at boosting the reputation of the country's manufactured products following a spate of safety concerns. Meanwhile, more **Chinese-made** toys were recalled because of potential risks from lead paint. In New Zealand, an investigation got under way into claims that children's pyjamas which had been made in China had been treated with dangerously high levels of formaldehyde.

Taking steps

China's central bank raised **interest rates** for the fourth time this year in a response to decade-high inflation. The decision was also viewed as an attempt to take some of the heat out of China's stockmarkets, which seem immune to the turmoil in other financial markets. Shanghai's Composite Index is trading at record highs. Meanwhile, the Chinese government eased **capital controls** by allowing its citizens to buy unlimited shares in Hong Kong's stockmarket, which it considers as foreign investment.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

KAL's cartoon

Aug 23rd 2007
From The Economist print edition

Illustration by Kevin Kallaugher

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Russia's government

Putin's people

Aug 23rd 2007
From The Economist print edition

The former KGB men who run Russia have the wrong idea about how to make it great

Magnum/AP

Get article background

“OUR pilots have been grounded for too long. They are happy to start a new life.” So said Vladimir Putin as he sent Russia's nuclear bombers back aloft on the world-spanning patrols they had suspended after the collapse of the Soviet Union. This comes hard on the heels of talk of reopening a Russian naval base in the Mediterranean, joint war games with China and the planting of the Russian flag in the polar seabed. The Soviet Union is dead and communism long buried. But Mr Putin wants you to know that the Russian bear is back—wearing a snarl with its designer sunglasses.

How has this situation come about? It is tempting to search for mistakes by Western governments, to look for the culprits who “lost Russia”. Yet as our briefing this week explains (see article), the role of outsiders has been secondary. The best way to understand both Mr Putin's ascent into the Kremlin and his rule since is to see them as the remarkable recovery of the culture, mentality and view of the world of the old KGB.

When Mr Putin was plucked from obscurity to become first Boris Yeltsin's prime minister and later his successor as Russia's president, few in the West had heard of this former KGB officer, who had briefly been head of the FSB, the KGB's post-Soviet successor. Just before he became president, Mr Putin told his colleagues that a group of FSB operatives, “dispatched under cover to work in the government of the Russian federation”, was successfully fulfilling its task. It was probably a joke. Yet during his two terms since then, men from the FSB and its sister outfits have indeed grabbed control of the government, economy and security forces. Three out of four senior Russian officials today were once affiliated to the KGB and other security and military organisations.

Why they do it

What motivates these so-called *siloviki*? In part, the wish for revenge on those who challenged them in the early 1990s, especially after the abortive KGB coup of August 1991. Greed may be the most powerful motive: some Kremlin insiders have hugely enriched themselves in the past decade, and corruption may be worse even than in the later Yeltsin years. But the new elite also has an ideology of sorts. They see the break-up of the Soviet Union as, in Mr Putin's words, the “greatest geopolitical catastrophe” of the 20th century. Capitalising on a widespread sense that Russia has been humiliated, they want to create as mighty a state as the Soviet Union once was. They see the West as a foe bent on stopping them.

In this, Russia's rulers have strong domestic support. It is hard to gauge Mr Putin's popularity in a country with such tightly controlled media, but his opinion-poll ratings are impressively high. That nobody doubts his ability to choose his own successor owes a lot to his suppression of all dissent, but it reflects also the fact that voters have little love for the tiny liberal opposition remaining. Thanks to GDP growth that has averaged almost 7% a year under Mr Putin, many Russians feel better off, even if a lot are still poor. And many share the desire to reassert Russia's greatness—and a deep-rooted belief that the West is Russia's natural enemy.

It is foolish for people in the West to deny that Russia is a great power and that, in some ways, its influence has increased. When Mr Putin became president, its GDP was the world's tenth-biggest and foreign reserves stood at $8.5 billion. Today Russia's economy is the world's eighth-largest, and the reserves are $407.5 billion. The Kremlin has played adeptly on Europe's dependence on Russian gas to enhance its influence. On issues such as Kosovo or Iran, Russia has used its seat on the UN Security Council to force the West to pay it attention.

To achieve true greatness, unclench that fist

Yet the *siloviki*'s ambitions remain misguided. That is not because there is anything illegitimate about wanting a strong Russia. What is wrong is how they define that strength—in the Soviet terms of awe and anxiety—and how they pursue it. The economy, for a start, is heavily dependent on high prices for oil, gas and other commodities that may not last. Russia is weak in manufacturing, services and high-tech industries. Putting spies in charge of big firms is a recipe for failure: they know how to grab assets and jail foes, but not how to run real businesses. Foreign investors may still covet Russia's natural-resource sector, but a climate in which assets can be arbitrarily taken back by state officials and then redistributed to cronies is not welcoming. Both foreign and, more strikingly, domestic investment are very low compared with China.

Nor is it sensible to revive Russia's old anti-Western, zero-sum strategic thinking. The West tried to be a friend in the Yeltsin years, but has since been put off by Russian belligerence. A resurgent Russia can throw its weight around the neighbourhood and intimidate ex-Soviet republics such as Georgia, Ukraine and the Baltics; but by alienating its neighbours Moscow harms its own interests too. By dint of size and military strength, Russia is a power in the world. Yet today even the “soft power” that the Soviet Union once wielded through communism has mostly gone. In its place is only fear.

The biggest misreading of all is over Russia's own political future. The *siloviki* have shown they can squash opposition, suborn the courts and stay in charge. But, as in all autocracies, they are acutely nervous about the future. Mr Putin's popularity will not easily transfer even to a hand-picked successor. More generally, as ordinary Russians get richer, they may grow dissatisfied with their present masters, especially when they see them stealing and mismanaging the economy. Russia has huge problems: crime, poor infrastructure, secessionism and chaos in the north Caucasus, appalling human-rights abuses and a looming demographic catastrophe. To counterbalance these woes, the new elite may resort to even wilder forms of nationalism; and that nationalism could turn into a monster that even its creators cannot control.

In truth, the biggest threats to Russia's future stem not from its “enemies” but from internal weaknesses, some of them self-inflicted. For a Russian ruler, or ruling class, to accept that truth would take real courage—and real patriotism.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The America-India nuclear deal

Worse will come

Aug 23rd 2007
From The Economist print edition

Unless others stand up for the anti-nuclear rules

AP

FOR India's government, despite the hubbub in Parliament and barely veiled threats from its neighbour, Pakistan, the controversial deal it struck last month with America to allow civil nuclear co-operation between the two countries is already radiating success. Shinzo Abe, Japan's prime minister, was in Delhi this week to cement a “strategic partnership”, despite Japan's decades-long discomfort with India's bomb. Meanwhile, Australia's cabinet, hitherto resolute in its refusal to sell uranium to any country outside the Nuclear Non-Proliferation Treaty (and only to a select few within it), has taken its cue from America and agreed in principle to sell uranium to India, even though India hasn't signed the NPT, and won't.

India is breaking out of the nuclear quarantine imposed after its first “peaceful” nuclear test in 1974. But for commerce to resume, it must first agree with the International Atomic Energy Agency (IAEA) which safeguards will apply to nuclear facilities it has designated “civilian”. It will then need an exemption from the 45-nation Nuclear Suppliers Group (NSG), which bars nuclear trade with countries, such as India, that refuse to apply such international safeguards to all their nuclear facilities. Some governments are deeply unhappy at carving an India-sized hole in the nuclear rules. But none has yet vetoed it.

Unlike North Korea and Iran, which signed the NPT and then violated its rules, India (like Pakistan and Israel) never signed the treaty; its bombs are not illegal. Since no one expects it to give them up, the Bush administration argues it is better to bring India in from the cold and have it take on similar responsibilities to the treaty's five recognised nuclear powers: America, Britain, France, Russia and China. That, say the Americans, would be a net gain for non-proliferation.

This newspaper has long disputed that. Among other dangerous loopholes, some of which have widened since Congress gave its conditional go-ahead to the deal in December, India is pointedly not taking on the obligations and practices of the official five. Unlike them, it has refused to sign the test-ban treaty. Unlike them, it declines to end the production of fissile material—uranium and plutonium—for bombs.

America's readiness to make an Indian exception to all the rules risks snapping two of the joists that support the global non-proliferation structure. At the IAEA, India wants the right not just to say which reactors can be inspected, but when. Such unprecedented laxity in India will make it hard to get others—for example, Brazil, which already does some uranium enriching of its own—to accept the tougher inspections that the IAEA wants as standard for all NPT members.

Likewise, the hard-won clarity of the NSG's trade ban has helped maintain support for the NPT, despite

the cheating antics of a few. Mere talk of fudging the rules last year encouraged Russia to break them, citing spurious “safety” concerns as an excuse to sell India uranium fuel. China, unhappy at America's coddling of India, is exploring more nuclear co-operation with Pakistan—which in turn threatens to match India, should it step up weapons production or test again.

Sending precisely the wrong message

Japan, the NPT member with the most capable nuclear industry outside the nuclear five, has told Iran and others that they should do as it does—scrupulously observe all IAEA safeguards—if they want to be trusted with nuclear technology. Exemptions for India will convey a different message: first get your bomb. Such rule-bending puts at risk the anti-nuclear regime that everyone else's safety and security is built on. Governments at the NSG and the IAEA that are unhappy with this need to find the courage of their convictions, and block it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Monetary policy

Hazardous times

Aug 23rd 2007
From The Economist print edition

The Fed has a new problem: convincing investors it does not need to cut interest rates yet

LEND freely but at penal rates was Walter Bagehot's advice to central bankers in a liquidity crisis. Lend freely and reduce interest rates has been the panicky demand of many investors shocked by the speed with which a crisis among low-quality mortgage borrowers in America has ricocheted around the world. So far the central banks, led by America's Federal Reserve, have tried to have it both ways. The Fed has lent freely, not always at penal rates. Meanwhile, it has talked a cautious game: no firm promise that any interest rate will be cut, but the odd hint that all the options are open in monetary policy, especially when it comes to protecting the real economy from the turbulence on the markets.

From many investors' point of view, this has worked a treat. Stockmarkets, which seemed in a state of panic on August 16th, have recovered some of their poise. More importantly, the credit markets, especially the ones where banks lend to each other, look more relaxed. Yet much of this relief is based on a single expectation: that the Fed will cut interest rates soon, perhaps even before its next rate-setting meeting on September 18th. This looks doubly dangerous: a rate cut is not certain; it would also, quite possibly, be the wrong thing to do. Hence, the increasingly urgent need for the Fed's chairman, Ben Bernanke, to let down his new admirers gently.

The willingness of investors to pin their hopes on a rate cut is understandable: after all, that has been the response of the Fed to every financial panic since the stockmarket crash of 1987. The Fed has also craftily encouraged that belief, while not yet committing itself. On August 17th, in addition to cutting the discount rate which banks pay it for emergency lending, the Fed's rate-setters acknowledged that financial turmoil now posed a risk to America's economy. The tone was so different from the Fed's statement just ten days before, when inflation was its biggest concern, that markets automatically assumed a rate cut was imminent. But was that wise?

House of cards

Begin with the fact that both the Fed and the markets have an overwhelming long-term interest in risk being priced correctly. The new model of financing, in which debt is repackaged and risk is dispersed through a web of derivative contracts, has much merit. But it plainly has had an unhappy consequence: when a problem emerged (in this case, in subprime mortgages), it was harder to work out whom it was safe to do business with. Banks became wary of lending to each other. The outcome was frighteningly similar to a bank run, but one that affected the entire wholesale money market.

From this perspective, it certainly made sense for central banks to stop that run by supplying short-term money. Nobody wants a temporary cash shortage to turn into a solvency crisis, where otherwise valuable assets are sold cheaply into a market gripped by fear. Temporary loans to the banking system should grease the market's wheels and enable it to grind out its own solutions.

However, a shift in the longer-term stance of monetary policy, by lowering the benchmark price of money, is a very different proposition. A rate cut does not just increase the supply of cash; it directly influences people's calculations about risk. Cheaper money makes other assets look more attractive—an undesirable consequence at a moment when risk is being repriced after many years of lax lending. It is not surprising that some investors think the Fed is setting a floor under asset prices. But letting that

belief pass unchallenged blesses reckless speculation and reinforces moral hazard.

Let them down gradually

Clearly, there may be limits to a policy of tough love. If, for instance, the banking system were indeed in danger, then the Fed should step in. More realistically, if the current credit crunch were to intensify, economic growth show signs of faltering and inflation disappear as a threat, the Fed would also have reason to cut rates. But Mr Bernanke should be driven by his remit to support economic stability, not by the whiplash from financial markets. That, arguably, was the mistake that Alan Greenspan made when the Fed lowered rates three times in 1998 as financial markets seized up in response to the collapse of Long-Term Capital Management, a hedge fund.

This time, it is too soon to tell how deeply the financial crisis has affected the American economy. Some argue that it could benefit from some pain too (see article). In fact, plenty of the normal mechanisms markets have for correcting themselves have yet to swing into action: there is plenty of cash still hoping to pour into financial markets when they become cheap enough, whether from oil-rich governments, vulture funds, canny investors such as Warren Buffett or cash-rich companies still churning out profits. Already, Bank of America has snapped up a $2 billion stake in Countrywide, a troubled mortgage lender. To cut rates too soon would imply that the financial system cannot work without bail-outs. That would be the worst legacy of all.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Thailand's referendum

The long march back to the barracks

Aug 23rd 2007
From The Economist print edition

There may be such a thing as a good coup; Thailand's was certainly not one

Getty Images

FROM Pakistan to Fiji, from Bangladesh to Thailand, the men in green are finding what they should have known all along: that it is far easier for soldiers to topple an elected government than to manage their own exit from the front of the political stage. Many generals, however, never learn that lesson. What is surprising in Thailand, which on August 19th held a referendum designed to smooth their exit (see article), is that so many of the country's elite cheered them on when they staged their coup a year ago. Critics of the coup—such as this newspaper—were denounced for misunderstanding both the depth of the evil of Thaksin Shinawatra, the prime minister they deposed, and the wonders of Thailand itself.

We had no fondness for Mr Thaksin: the human-rights abuses perpetrated by the security forces on his watch were deplorable and some of his nationalist economic policies were loopy. But he had a mandate. His Thai Rak Thai (TRT) party won 375 of the 500 lower-house seats in the last valid election, in 2005. Democracy produces some nasty leaders. But that is no reason for ditching it. Even the best-intentioned coups leave an ugly mess, such as that now facing Thailand.

In the referendum voters approved the new constitution the generals want to foist on them. But it is difficult to see the vote as a ringing endorsement of the new charter itself, let alone as a vindication of last September's coup. Turnout was low; the winning majority even lower; and an unknown share of those who voted yes will have done so only to move the country on towards the elections promised for December, after which, it is hoped, the soldiers will quit politics.

The charter is designed to prevent the re-emergence of an elected strongman like Mr Thaksin. To this end, it contains some unobjectionable measures, such as reducing the number of parliamentarians needed to call a vote of no confidence in the prime minister and strengthening the powers of the national human-rights commission. Public criticism forced the army to drop some egregiously undemocratic clauses, such as the provision for a “national crisis council”, including army officers, to take charge in any future political conflict. However, some dubious bits remain: almost half of the Senate will be appointed by a panel of judges and bureaucrats; and the coupmakers themselves are granted a blanket amnesty.

Even with the “crisis council” expunged from the constitution, the spectre of the army whipping up a crisis to justify seizing power again has not quite gone away. Now that the constitution has passed, the generals may have another go at pushing through a draconian security law, giving the army sweeping new powers to override the elected government and make arrests, search homes without warrants and impose curfews and censorship. All this in the name of combating threats to “internal security”, defined so broadly that the army could treat pretty well any dissent as such.

Built-in weakness

In May a constitutional tribunal created by the junta found the TRT guilty of electoral fraud and dissolved it. But the charter-drafters wanted to make it harder for any other dominant majority party to emerge in future. For that reason, the new constitution tweaks the voting system in favour of smaller parties. This is ironic: the whole point of Thailand's last democratic constitution, passed in 1997, was to free the country from the cycle of weak and unstable coalitions and frequent coups. The danger is now that the charter will succeed too well and Thailand will be back to weak governments.

This would suit the military-royalist elite. They could go back to running the country from behind the scenes. But there is a risk of stagnation. Thailand's economy is already growing slower than its neighbours' in part because of the continuing political uncertainty. A fractious coalition government, or one run by bumbling generals, might make things worse.

The new constitution is Thailand's 18th since the end of absolute monarchy in 1932 and, sadly, may not be its last. The army may have doomed Thailand to further cycles of constitution, crisis and coup. The next flashpoint may not be far off. Hundreds of Mr Thaksin's former MPs have regrouped under the banner of the People's Power Party (PPP). Since Mr Thaksin and his populist policies retain wide support, the PPP may enter the election campaign as front-runner. But the generals will surely do their damnedest to thwart a Thaksinite restoration. If they fight dirty, the relatively small anti-junta protests seen so far could quickly swell. The road back to the barracks is, as ever, strewn with hazards.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

W.F. Deedes

In praise of a questing vole

Aug 23rd 2007
From The Economist print edition

Modest, curious and experienced—a vanishing breed in journalism

Daily Telegraph

"PLASHY" is not a word often used these days, not even in the London *Daily Telegraph*. It impressed the managing editor of *The Beast*, however, and that was (partly) how William Boot, countryman, came to be sent to cover the Ishmaelite crisis in Evelyn Waugh's "Scoop". Boot, it is said, was modelled on Bill Deedes, who died last week. Waugh met him in Abyssinia in 1935, where both were covering the war. Covering wars was something that Deedes was still doing almost to the last, sending his dispatches to the *Daily Telegraph*.

He fought in one, too, winning the Military Cross in the Netherlands. He also became a member of Parliament, served in the cabinet, was made a peer and played many rounds of golf with Denis Thatcher, Margaret's husband. This gave rise to further fiction-linked fame when letters purportedly written to him by the prime minister's husband were printed every fortnight in *Private Eye*, a satirical magazine.

Above all, though, Deedes was a journalist. Journalism is not a respectable activity in Britain; it has certainly never been considered a profession, for which qualifications and decent conduct are required. Some journalists have been forgiven their early calling and gone on to win public esteem in other activities—Winston Churchill, for instance. And, like Churchill, Deedes became a politician, if only for a while. But Deedes was unusual in that he earned respect as a journalist.

This was partly no doubt because he lived so long: he was 94 when he died, and still hard at work. It helped that he was so amiable and so lacking in conceit—not universal qualities among journalists. And it helped that his latter-day interests reflected his concern for others, especially the victims of wars, diseases and natural disasters, no matter how far away; his last campaign was to banish landmines. But his mastery of the basic crafts of journalism was not irrelevant.

Writing and reporting, of the kind Deedes relished, are less valued now than once they were, at least by the media industry. A newspaper report from a war zone may not, it's true, have all the immediacy of a live television feed, or even the spontaneity of an unmediated blog. And it's true, too, that many a pundit can sit in an office and, after a good lunch with a diplomat, hammer out 600 cogent words. Yet columns unsupported by reporting tend to lack vitality and authority.

The value of memory—and dust on the shoes

By contrast, a well-turned column from the spot has a quality all its own, especially when the author can

bring a lifetime of personal experience to his aid. This Deedes could do, comparing the Darfur before his eyes as he typed, say, with the German concentration camps he had seen 60 years before.

Good reporting, like good writing, is an end in itself. Some old hacks have seen it all before, and cannot convey with freshness the events they witness. Some young hacks make up for inexperience with boasts of their own derring-do. Many more would welcome the experience that Deedes was lucky enough to gain in 70 years of work, but cannot get the posting. It costs money to send reporters round the world. Cheaper by far to hire a pen that can attack Hillary Clinton's hair, moan about the commute or write, “Feather-footed through the plashy fen passes the questing vole.” No doubt journalism has jumped forward since Lord Copper dispatched Boot to join the ghastly Corker, Shumble, Whelper and Pigge in Ishmaelia; but something has been lost too. And Bill Deedes epitomised it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

On American politics, backdated options, Europe, intangible assets, La Paz

Aug 23rd 2007
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Changing political winds

SIR – Your leader on the decline of the American right was interesting ("Is America turning left?", August 11th). However, by comparison you pointed to the "liberal overreach" of the 1960s. This label confuses the politics and policies of Lyndon Johnson's Great Society with the wider protest movements and social turbulence of the late 1960s and early 1970s. LBJ's programmes were based on the idea of equality of opportunity, not entitlement or equality of outcome. Affirmative action, the War on Poverty, and federal aid to education were all passed in this light.

What conservative polemicists have been so good at is blaming and associating the Great Society with rioting, protests, urban breakdown, policy excesses and failure. Yet these had little to do with Johnson's liberalism. The Democratic Party's leftward shift and embrace of more radical protest movements took place after Johnson left office, most noticeably in 1972 when George McGovern ran on a rabidly anti-war ticket and proposed an annual guaranteed income for workers.

It is crucial to make this distinction because the ideological battles of the 1960s and 1970s live on and continue to shape contemporary American politics.

David Torstensson
Oxford

SIR – I grew up a Republican and have rarely voted otherwise. From the 1950s until the 1990s the Republican Party broadly represented the centre of the political spectrum in America. Gerald Ford, George Bush senior, and even Ronald Reagan clearly understood and honoured this fact. I took George Bush at face value in 2000 and voted for him. By 2004 it had become clear that he was a classic Dixiecrat masquerading as a Republican.

Unfortunately, too many of us waited until after the 2006 mid-term election to make our views known. By early 2007 Mr Bush's honeymoon with centrist Republicans and independents was over. We finally realised that we had been misled.

Christopher Prael
Menlo Park, California

SIR – So now an American citizen who believes that his country has the right and responsibility to control its own borders, and to decide who comes in, for how long, and why, is to be labelled "intolerant" and a "nativist". If the last resort of a scoundrel is patriotism, then the next-to-last must surely be name-calling. America accepts more legal immigrants than any other country in the world; the appellation "nativist" seems to me to be totally inappropriate.

Walter Spangenberg
La Conner, Washington

SIR – I attended a performance by the British songwriters and satirists Flanders and Swann in New York in the 1960s. One memorable line they delivered was: "To help you understand the next song, in Britain we have two political parties. On the one hand we have the Labour Party, or as you would say, socialist. On the other we have the Conservative Party, or as you would say, socialist."

Geoff Taylor
Pouzols-Minervois, France

Incentive schemes

SIR – I was surprised to read, in your article on backdated options, that Greg Reyes, the former chief executive of Brocade, "made no financial gain from backdating" ("Collared", August 11th). The criminal charges against Mr Reyes did indeed focus on the backdated options of other employees at Brocade. But, as the civil complaint against him made clear, Mr Reyes also stood to gain personally.

Moreover, even though some bosses do not personally receive backdated options, the backdating of employees' options indirectly increases bosses' compensation by inflating the earnings of a firm. Do you really believe that executives would engage in illegal backdating if they had nothing to gain?

Jesse Fried
Professor of law
University of California at Berkeley
Berkeley

The power of none

SIR – Charlemagne is right to point out that trying to "hoodwink" European voters over the constitutional treaty is disrespectful (August 11th). The European Union's leaders may come to regret choosing such a path. However, it is ironic that the raison d'être of the treaty was to open up the reform process, an idea which the voters spectacularly rejected. Politicians, predictably, have responded to this snub by returning to their bad old form. It may be elitist and undemocratic to point out that the voters got it wrong, but that doesn't make it any less true. As Shaw once noted, democracy ensures we get the politicians we deserve.

Kyrre Holm
Oslo

Measuring up

SIR – Capital markets ascribe value to all assets—tangible and intangible alike ("Intangible measures", August 4th). It is the challenge of measuring the value of assets such as intellectual property and know-how, as well as the reputations stemming from such things as safety, security, quality and integrity, that has caused accountants to label them "intangible".

Much of the difficulty arises from the non-linear relationships among investment, value realisation, and value loss. For example, JetBlue airlines built a reputation for superior customer service by investing in training, marketing and advertising, as well as tangible aircraft-amenities. It suffered a serious blow to its reputation, and its market capitalisation, on an icy weekend in February 2007 when its IT network, in which it had underinvested, failed, stranding customers nationwide.

Because of these non-linear relationships, the Intangible Asset Finance Society favours market measures (eg, gross margins, net income, p/e multiples, price volatility) as both historic and forward indicators of intangible asset value. In the Society's view, rather than second-guessing market value, the concentration of effort should be directed towards better intangible-asset value management, communication and risk mitigation.

Nir Kossovsky
Executive secretary
Intangible Asset Finance Society
Pittsburgh

So there

SIR – Your characterisation of La Paz as Bolivia's "breathlessly impractical capital" is simplistic ("A fight to be capital", July 28th). The city has witnessed some of the bravest moments in Latin America's history, including the 1952 revolution. It is home to close to 2m people (if you include El Alto) and is the centre of Aymaran civilisation, which extends to Peru and certain parts of Ecuador. From an economic

standpoint La Paz is well situated. The city is located about four hours from the ocean by car and is close to mineral-rich mountains. To the east, a one-hour drive takes you through high and low valleys and tropical plains. La Paz is the centre of Bolivian government, but it has many entrepreneurs who contribute to Bolivia's growth.

If you think that a city's high altitude is problematic, then you could also claim that Mexico City is “impractical”. And it is built over a swamp.

Ricardo Cardona Maldonado
La Paz

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Russia under Putin

The making of a neo-KGB state

Aug 23rd 2007 | MOSCOW
From The Economist print edition

Political power in Russia now lies with the FSB, the KGB's successor

AFP

Get article background

ON THE evening of August 22nd 1991—16 years ago this week—Alexei Kondaurov, a KGB general, stood by the darkened window of his Moscow office and watched a jubilant crowd moving towards the KGB headquarters in Lubyanka Square. A coup against Mikhail Gorbachev had just been defeated. The head of the KGB who had helped to orchestrate it had been arrested, and Mr Kondaurov was now one of the most senior officers left in the fast-emptying building. For a moment the thronged masses seemed to be heading straight towards him.

Then their anger was diverted to the statue of Felix Dzerzhinsky, the KGB's founding father. A couple of men climbed up and slipped a rope round his neck. Then he was yanked up by a crane. Watching “Iron Felix” sway in mid-air, Mr Kondaurov, who had served in the KGB since 1972, felt betrayed “by Gorbachev, by Yeltsin, by the impotent coup leaders”. He remembers thinking, “I will prove to you that your victory will be short-lived.”

Those feelings of betrayal and humiliation were shared by 500,000 KGB operatives across Russia and beyond, including Vladimir Putin, whose resignation as a lieutenant-colonel in the service had been accepted only the day before. Eight years later, though, the KGB men seemed poised for revenge. Just before he became president, Mr Putin told his ex-colleagues at the Federal Security Service (FSB), the KGB's successor, “A group of FSB operatives, dispatched under cover to work in the government of the Russian federation, is successfully fulfilling its task.” He was only half joking.

Over the two terms of Mr Putin's presidency, that “group of FSB operatives” has consolidated its political power and built a new sort of corporate state in the process. Men from the FSB and its sister organisations control the Kremlin, the government, the media and large parts of the economy—as well as the military and security forces. According to research by Olga Kryshtanovskaya, a sociologist at the Russian Academy of Sciences, a quarter of the country's senior bureaucrats are *siloviki*—a Russian word meaning, roughly, “power guys”, which includes members of the armed forces and other security services, not just the FSB. The proportion rises to three-quarters if people simply affiliated to the security services are included. These people represent a psychologically homogeneous group, loyal to roots that go back to the Bolsheviks' first political police, the Cheka. As Mr Putin says repeatedly, “There is no such thing as a former Chekist.”

By many indicators, today's security bosses enjoy a combination of power and money without precedent in Russia's history. The Soviet KGB and its pre-revolutionary ancestors did not care much about money; power was what mattered. Influential though it was, the KGB was a “combat division” of the Communist Party, and subordinate to it. As an outfit that was part intelligence organisation, part security agency and part secret political police, it was often better informed, but it could not act on its own authority; it could

only make “recommendations”. In the 1970s and 1980s it was not even allowed to spy on the party bosses and had to act within Soviet laws, however inhuman.

The KGB provided a crucial service of surveillance and suppression; it was a state within a state. Now, however, it has become the state itself. Apart from Mr Putin, “There is nobody today who can say no to the FSB,” says Mr Kondaurov.

All important decisions in Russia, says Ms Kryshtanovskaya, are now taken by a tiny group of men who served alongside Mr Putin in the KGB and who come from his home town of St Petersburg. In the next few months this coterie may well decide the outcome of next year's presidential election. But whoever succeeds Mr Putin, real power is likely to remain in the organisation. Of all the Soviet institutions, the KGB withstood Russia's transformation to capitalism best and emerged strongest. “Communist ideology has gone, but the methods and psychology of its secret police have remained,” says Mr Kondaurov, who is now a member of parliament.

Scotched, not killed

Mr Putin's ascent to the presidency of Russia was the result of a chain of events that started at least a quarter of a century earlier, when Yuri Andropov, a former head of the KGB, succeeded Leonid Brezhnev as general secretary of the Communist Party. Andropov's attempts to reform the stagnating Soviet economy in order to preserve the Soviet Union and its political system have served as a model for Mr Putin. Early in his presidency Mr Putin unveiled a plaque at the Lubyanka headquarters that paid tribute to Andropov as an “outstanding political figure”.

Staffed by highly educated, pragmatic men recruited in the 1960s and 1970s, the KGB was well aware of the dire state of the Soviet economy and the antique state of the party bosses. It was therefore one of the main forces behind *perestroika*, the loose policy of restructuring started by Mr Gorbachev in the 1980s. *Perestroika*'s reforms were meant to give the Soviet Union a new lease of life. When they threatened its existence, the KGB mounted a coup against Mr Gorbachev. Ironically, this precipitated the Soviet collapse.

The defeat of the coup gave Russia an historic chance to liquidate the organisation. “If either Gorbachev or Yeltsin had been bold enough to dismantle the KGB during the autumn of 1991, he would have met little resistance,” wrote Yevgenia Albats, a journalist who has courageously covered the grimmest chapters in the KGB's history. Instead, both Mr Gorbachev and Yeltsin tried to reform it.

AP

But Iron Felix bounced back

The “blue blood” of the KGB—the First Chief Directorate, in charge of espionage—was spun off into a separate intelligence service. The rest of the agency was broken into several parts. Then, after a few short months of talk about openness, the doors of the agency slammed shut again and the man charged with trying to reform it, Vadim Bakatin, was ejected. His glum conclusion, delivered at a conference in 1993, was that although the myth about the KGB's invincibility had collapsed, the agency itself was very much alive.

Indeed it was. The newly named Ministry of Security continued to “delegate” the officers of the “active reserve” into state institutions and commercial firms. Soon KGB officers were staffing the tax police and customs services. As Boris Yeltsin himself admitted by the end of 1993, all attempts to reorganise the KGB were “superficial and cosmetic”; in fact, it could not be reformed. “The system of political police has been preserved,” he said, “and could be resurrected.”

Yet Mr Yeltsin, though he let the agency survive, did not use it as his power base. In fact, the KGB was cut off from the post-Soviet redistribution of assets. Worse still, it was upstaged and outwitted by a tiny group of opportunists, many of them Jews (not a people beloved by the KGB), who became known as the oligarchs. Between them, they grabbed most of the country's natural resources and other privatised assets. KGB officers watched the oligarchs get super-rich while they stayed cash-strapped and sometimes even unpaid.

Some officers did well enough, but only by offering their services to the oligarchs. To protect themselves

from rampant crime and racketeering, the oligarchs tried to privatise parts of the KGB. Their large and costly security departments were staffed and run by ex-KGB officers. They also hired senior agency men as “consultants”. Fillip Bobkov, the head of the Fifth Directorate (which dealt with dissidents), worked for a media magnate, Vladimir Gusinsky. Mr Kondaurov, a former spokesman for the KGB, worked for Mikhail Khodorkovsky, who ran and largely owned Yukos. “People who stayed in the FSB were B-list,” says Mark Galeotti, a British analyst of the Russian special services.

Lower-ranking staff worked as bodyguards to Russia's rich. (Andrei Lugovoi, the chief suspect in the murder in London last year of Alexander Litvinenko, once guarded Boris Berezovsky, an oligarch who, facing arrest in Russia, now lives in Britain.) Hundreds of private security firms staffed by KGB veterans sprang up around the country and most of them, though not all, kept their ties to their *alma mater*. According to Igor Goloshchapov, a former KGB special-forces commando who is now a spokesman for almost 800,000 private security men,

> In the 1990s we had one objective: to survive and preserve our skills. We did not consider ourselves to be separate from those who stayed in the FSB. We shared everything with them and we saw our work as just another form of serving the interests of the state. We knew that there would come a moment when we would be called upon.

That moment came on New Year's Eve 1999, when Mr Yeltsin resigned and, despite his views about the KGB, handed over the reins of power to Mr Putin, the man he had put in charge of the FSB in 1998 and made prime minister a year later.

The inner circle

As the new president saw things, his first task was to restore the management of the country, consolidate political power and neutralise alternative sources of influence: oligarchs, regional governors, the media, parliament, opposition parties and non-governmental organisations. His KGB buddies helped him with the task.

AFP

The flowers fade, the Lubyanka stands

The most politically active oligarchs, Mr Berezovsky, who had helped Mr Putin come to power, and Mr Gusinsky, were pushed out of the country, and their television channels were taken back into state hands. Mr Khodorkovsky, Russia's richest man, was more stubborn. Despite several warnings, he continued to support opposition parties and NGOs and refused to leave Russia. In 2003 the FSB arrested him and, after a show trial, helped put him in jail.

To deal with unruly regional governors, Mr Putin appointed special envoys with powers of supervision and control. Most of them were KGB veterans. The governors lost their budgets and their seats in the upper house of the Russian parliament. Later the voters lost their right to elect them.

All the strategic decisions, according to Ms Kryshtanovskaya, were and still are made by the small group of people who have formed Mr Putin's informal politburo. They include two deputy heads of the presidential administration: Igor Sechin, who officially controls the flow of documents but also oversees economic matters, and Viktor Ivanov, responsible for personnel in the Kremlin and beyond. Then come Nikolai Patrushev, the head of the FSB, and Sergei Ivanov, a former defence minister and now the first deputy prime minister. All are from St Petersburg, and all served in intelligence or counter-intelligence.

Mr Sechin is the only one who does not advertise his background.

That two of the most influential men, Mr Sechin and Viktor Ivanov, hold only fairly modest posts (each is a deputy head) and seldom appear in public is misleading. It was, after all, common Soviet practice to have a deputy, often linked to the KGB, who carried more weight than his notional boss. “These people feel more comfortable when they are in the shadows,” explains Ms Kryshtanovskaya.

In any event, each of these KGB veterans has a plethora of followers in other state institutions. One of Mr Patrushev's former deputies, also from the KGB, is the minister of the interior, in charge of the police. Sergei Ivanov still commands authority within the army's headquarters. Mr Sechin has close family ties to the minister of justice. The prosecution service, which in Soviet times at least nominally controlled the KGB's work, has now become its instrument, along with the tax police.

The political clout of these *siloviki* is backed by (or has resulted in) state companies with enormous financial resources. Mr Sechin, for example, is the chairman of Rosneft, Russia's largest state-run oil company. Viktor Ivanov heads the board of directors of Almaz-Antei, the country's main producer of air-defence rockets, and of Aeroflot, the national airline. Sergei Ivanov oversees the military-industrial complex and is in charge of the newly created aircraft-industry monopoly.

But the *siloviki* reach farther, into all areas of Russian life. They can be found not just in the law-enforcement agencies but in the ministries of economy, transport, natural resources, telecoms and culture. Several KGB veterans occupy senior management posts in Gazprom, Russia's biggest company, and its pocket bank, Gazprombank (whose vice-president is the 26-year-old son of Sergei Ivanov).

Alexei Gromov, Mr Putin's trusted press secretary, sits on the board of Channel One, Russia's main television channel. The railway monopoly is headed by Vladimir Yakunin, a former diplomat who served his country at the United Nations in New York and is believed to have held a high rank in the KGB. Sergei Chemezov, Mr Putin's old KGB friend from his days in Dresden (where the president worked from 1985 to 1990), is in charge of Rosoboronexport, a state arms agency that has grown on his watch into a vast conglomerate. The list goes on.

Many officers of the active reserve have been seconded to Russia's big companies, both private and state-controlled, where they draw a salary while also remaining on the FSB payroll. “We must make sure that companies don't make decisions that are not in the interest of the state,” one current FSB colonel explains. Being an active-reserve officer in a firm is, says another KGB veteran, a dream job: “You get a huge salary and you get to keep your FSB card.” One such active-reserve officer is the 26-year-old son of Mr Patrushev who was last year seconded from the FSB to Rosneft, where he is now advising Mr Sechin. (After seven months at Rosneft, Mr Putin awarded Andrei Patrushev the Order of Honour, citing his professional successes and “many years of conscientious work”.) Rosneft was the main recipient of Yukos's assets after the firm was destroyed.

The attack on Yukos, which entered its decisive stage just as Mr Sechin was appointed to Rosneft, was the first and most blatant example of property redistribution towards the *siloviki*, but not the only one. Mikhail Gutseriev, the owner of Russneft, a fast-growing oil company, was this month forced to give up his business after being accused of illegal activities. For a time, he had refused; but, as he explained, “they tightened the screws” and one state agency after another—the general prosecutor's office, the tax police, the interior ministry—began conducting checks on him.

From oligarchy to spookocracy

The transfer of financial wealth from the oligarchs to the *siloviki* was perhaps inevitable. It certainly met with no objection from most Russians, who have little sympathy for “robber barons”. It even earned the *siloviki* a certain popularity. But whether they will make a success of managing their newly acquired assets is doubtful. “They know how to break up a company or to confiscate something. But they don't know how to manage a business. They use force simply because they don't know any other method,” says an ex-KGB spook who now works in business.

Curiously, the concentration of such power and economic resources in the hands of a small group of *siloviki*, who identify themselves with the state, has not alienated people in the lower ranks of the security services. There is trickle-down of a sort: the salary of an average FSB operative has gone up several times over the past decade, and a bit of freelancing is tolerated. Besides, many Russians inside and outside the ranks believe that the transfer of assets from private hands to the *siloviki* is in the

interests of the state. “They are getting their own back and they have the right to do so,” says Mr Goloshchapov.

The rights of the *siloviki*, however, have nothing to do with the formal kind that are spelled out in laws or in the constitution. What they are claiming is a special mission to restore the power of the state, save Russia from disintegration and frustrate the enemies that might weaken it. Such idealistic sentiments, says Mr Kondaurov, coexist with an opportunistic and cynical eagerness to seize the situation for personal or institutional gain.

Reuters

Ivanov, Putin and Patrushev: the agency marches forward

The security servicemen present themselves as a tight brotherhood entitled to break any laws for the sake of their mission. Their high language is laced with profanity, and their nationalism is often combined with contempt for ordinary people. They are, however, loyal to each other.

Competition to enter the service is intense. The KGB picked its recruits carefully. Drawn from various institutes and universities, they then went to special KGB schools. Today the FSB Academy in Moscow attracts the children of senior *siloviki*; a vast new building will double its size. The point, says Mr Galeotti, the British analyst, “is not just what you learn, but who you meet there”.

Graduates of the FSB Academy may well agree. “A Chekist is a breed,” says a former FSB general. A good KGB heritage—a father or grandfather, say, who worked for the service—is highly valued by today's *siloviki*. Marriages between *siloviki* clans are also encouraged.

Viktor Cherkesov, the head of Russia's drug-control agency, who was still hunting dissidents in the late 1980s, has summed up the FSB psychology in an article that has become the manifesto of the *siloviki* and a call for consolidation.

> We [*siloviki*] must understand that we are one whole. History ruled that the weight of supporting the Russian state should fall on our shoulders. I believe in our ability, when we feel danger, to put aside everything petty and to remain faithful to our oath.

As well as invoking secular patriotism, Russia's security bosses can readily find allies among the priesthood. Next to the FSB building in Lubyanka Square stands the 17th-century church of the Holy Wisdom, “restored in August 2001with zealous help from the FSB,” says a plaque. Inside, freshly painted icons gleam with gold. “Thank God there is the FSB. All power is from God and so is theirs,” says Father Alexander, who leads the service. A former KGB general agrees: “They really believe that they were chosen and are guided by God and that even the high oil prices they have benefited from are God's will.”

Sergei Grigoryants, who has often been interrogated and twice imprisoned (for anti-Soviet propaganda) by the KGB, says the security chiefs believe “that they are the only ones who have the real picture and understanding of the world.” At the centre of this picture is an exaggerated sense of the enemy, which justifies their very existence: without enemies, what are they for? “They believe they can see enemies where ordinary people can't,” says Ms Kryshtanovskaya.

“A few years ago, we succumbed to the illusion that we don't have enemies and we have paid dearly for

that," Mr Putin told the FSB in 1999. It is a view shared by most KGB veterans and their successors. The greatest danger comes from the West, whose aim is supposedly to weaken Russia and create disorder. "They want to make Russia dependent on their technologies," says a current FSB staffer. "They have flooded our market with their goods. Thank God we still have nuclear arms." The siege mentality of the *siloviki* and their anti-Westernism have played well with the Russian public. Mr Goloshchapov, the private agents' spokesman, expresses the mood this way: "In Gorbachev's time Russia was liked by the West and what did we get for it? We have surrendered everything: eastern Europe, Ukraine, Georgia. NATO has moved to our borders."

From this perspective, anyone who plays into the West's hands at home is the internal enemy. In this category are the last free-thinking journalists, the last NGOs sponsored by the West and the few liberal politicians who still share Western values.

To sense the depth of these feelings, consider the response of one FSB officer to the killing of Anna Politkovskaya, a journalist whose books criticising Mr Putin and his brutal war in Chechnya are better known outside than inside Russia. "I don't know who killed her, but her articles were beneficial to the Western press. She deserved what she got." And so, by this token, did Litvinenko, the ex-KGB officer poisoned by polonium in London last year.

In such a climate, the idea that Russia's security services are entitled to deal ruthlessly with enemies of the state, wherever they may be, has gained wide acceptance and is supported by a new set of laws. One, aimed at "extremism", gives the FSB and other agencies ample scope to pursue anyone who acts or speaks against the Kremlin. It has already been invoked against independent analysts and journalists. A lawyer who complained to the Constitutional Court about the FSB's illegal tapping of his client's telephone has been accused of disclosing state secrets. Several scientists who collaborated with foreign firms are in jail for treason.

Despite their loyalty to old Soviet roots, today's security bosses differ from their predecessors. They do not want a return to communist ideology or an end to capitalism, whose fruits they enjoy. They have none of the asceticism of their forebears. Nor do they relish mass repression: in a country where fear runs deep, attacking selected individuals does the job. But the concentration of such power and money in the hands of the security services does not bode well for Russia.

And not very good at their job

The creation of enemies may smooth over clan disagreements and fuel nationalism, but it does not make the country more secure or prosperous. While the FSB reports on the ever-rising numbers of foreign spies, accuses scientists of treason and hails its "brotherhood", Russia remains one of the most criminalised, corrupt and bureaucratic countries in the world.

During the crisis at a school in Beslan in 2004, the FSB was good at harassing journalists trying to find out the truth. But it could not even cordon off the school in which the hostages were held. Under the governorship of an ex-FSB colleague of Mr Putin, Ingushetia, the republic that borders Chechnya, has descended into a new theatre of war. The army is plagued by crime and bullying. Private businessmen are regularly hassled by law-enforcement agencies. Russia's foreign policy has turned out to be self-fulfilling: by perpetually denouncing enemies on every front, it has helped to turn many countries from potential friends into nervous adversaries.

The rise to power of the KGB veterans should not have been surprising. In many ways, argues Inna Solovyova, a Russian cultural historian, it had to do with the qualities that Russians find appealing in their rulers: firmness, reserve, authority and a degree of mystery. "The KGB fitted this description, or at least knew how to seem to fit it."

But are they doing the country any good? "People who come from the KGB are tacticians. We have never been taught to solve strategic tasks," says Mr Kondaurov. The biggest problem of all, he and a few others say, is the agency's loss of professionalism. He blushes when he talks about the polonium capers in London. "We never sank to this level," he sighs. "What a blow to the country's reputation!"

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New Orleans

The slow recovery

Aug 23rd 2007 | NEW ORLEANS
From The Economist print edition

Reuters

Two years after Katrina, New Orleans is still a shadow of its past self

A CASUAL visitor to New Orleans today might be forgiven for thinking the city had regained its feet since Hurricane Katrina struck on August 29th 2005. The old sections of town most favoured by tourists—the French Quarter and the Garden District—look much as they did in the summer of 2005 or, for that matter, the summer of 1905. Here there is little evidence of the storm that changed the city for ever.

But plenty of visitors these days wander beyond Bourbon Street's cheesy T-shirt vendors (many now selling Katrina-themed gear) to the parts of town that were flooded. Often they have come to help: thousands of good Samaritans, secular and religious alike, have descended on the city. Any progress made in the past two years is owed mostly to them, along with the hardy locals who, faced with an unholy combination of government apathy, incompetence and corruption, have become committed DIYers.

The recovery thus far has been a hodge-podge affair, with islands of rebuilding amid seas of neglect. Most of the districts that were flooded now contain a mixture of renovated homes, gutted houses awaiting repair while their owners live in trailers outside, buildings that have scarcely been touched since the storm and empty sites where homes once stood.

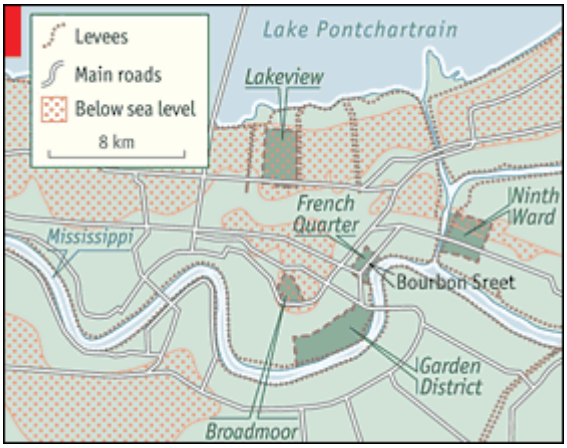
In general, wealthier neighbourhoods, such as Lakeview and Broadmoor, where people were able to tap their own resources, have seen more progress, though few areas have recovered substantially. The poorest sections, such as the Lower Ninth Ward, are still almost completely barren, with the removal of most of the storm's wreckage the only positive sign. In short, New Orleans has a long way to go.

The reasons for the slow climb-back start at the top. Regardless of academic arguments over whether New Orleans is a sensible place for a city, the federal government has much to answer for: it built and guaranteed the levees that failed the city, though they were designed to withstand much stronger storms. Then it oversaw the shameful response to the flooding. Yet rather than rushing to make amends, the Bush administration and Congress have forced Louisiana to beg for aid. It took a year to approve a $10 billion grant for flooded-out homeowners. The fund will soon run out, well before the last applicant is paid, yet neither the administration nor Congress has offered assurances that the deserving will all be treated alike.

The federal government's attitude towards flood protection has also been less than reassuring. Given what happened during Katrina, a top-notch levee system is surely the linchpin of the city's future. But

even the minor improvements Washington has promised have been slow to materialise. As the city enters the height of its second post-Katrina hurricane season, many of the levees have yet to be improved. Many of the promised changes will not come to pass until 2011, so those rebuilding in vulnerable parts of town are making a four-year leap of faith.

Legislation passed by Congress to set up a Gulf Opportunity Zone had promise, but has done little so far for the New Orleans area. The federal government set aside billions of dollars to subsidise interest rates for private projects in devastated areas across the Gulf coast. But much of the money has been gobbled up by opportunistic developers. Only one-tenth of 1% of the $4.5 billion in projects approved thus far in Louisiana are in New Orleans.



The state has made things worse by handing federal money out slowly. Louisiana's “Road Home” aid programme for homeowners is better known as the “Road to Nowhere”. So far, less than a quarter of the roughly 180,000 applicants have had their money.

New Orleans itself, which last year awarded its exasperating mayor, Ray Nagin, another term, continues to suffer from government that is at best inept and at worst corrupt. In the past ten weeks the former city-council president and the former school-board president have both pleaded guilty to accepting bribes. But the barrage of headlines about crooked politicians overshadows the more banal realities of life in a broken city. The criminal-justice system has been unable to deal with the city's murder rate, now by far the highest in the country. Accused killers routinely walk free without being tried. Other city services are spotty. Many libraries remain closed, and firefighters are still working out of trailers. Building inspectors are hard to come by. The sewage and water infrastructure is near collapse.

The city's population was recently estimated at 262,000, about 58% of what it was before Katrina. While it is still too early to pass judgment on how post-diluvian New Orleans will ultimately look, some changes are starting to become clear. Some of the city's poor, it seems certain, will not return. Many, if not most, cheap rented houses—the humble “shotguns” that predominated in much of the city—were underinsured and will not be rebuilt or restored. Working-class homeowners, meanwhile, are mostly still waiting for Road Home cheques.

Some of the Big Easy's wealthier citizens are leaving too, not for lack of housing but because their firms or their jobs have moved away. There has been something of an infusion of new blood—teachers, builders and others who have come to rebuild. Unfortunately, some of those who lend the city its unique character are finding it harder to stay. Musicians, in particular, are struggling, with fewer tourists visiting and poorer locals to rely on.

Nearly half of New Orleans is below sea level, and its lowest sections are prone to filling up with water in heavy rains, let alone hurricanes. But the government has done practically nothing to discourage rebuilding in the most flood-prone areas. City leaders dithered when confronted with the idea of declaring certain areas off-limits. Some liked to think that the issue would be dealt with by new federal flood maps, which stipulate how high buildings must stand in relation to the flood plain. That didn't happen either. In the end, most homeowners were able to rebuild precisely where they were before and still qualify for heavily subsidised federal flood insurance.

Success in New Orleans has always been measured in the taking of small pleasures rather than in gross domestic product and job creation. Those pleasures remain, in plenty. But if the city cannot fix its larger problems, it may lose its still fragile footing.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wildfires

Burn, baby, burn

Aug 23rd 2007 | BOISE
From The Economist print edition

The American West is on fire. That's good news

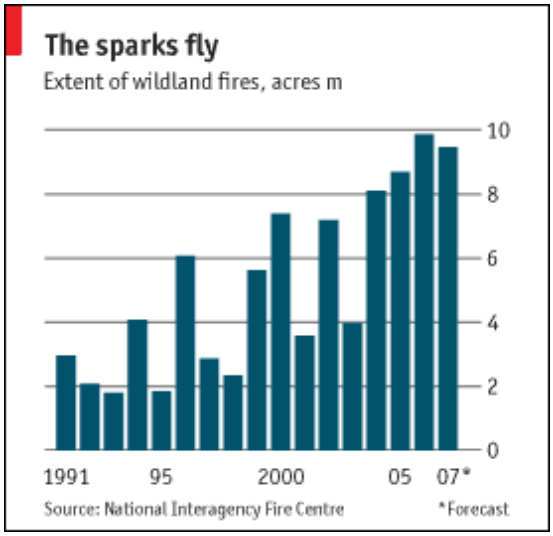
Get article background

TWO hours' drive north-east of Boise, the fires begin. They stretch northwards through Idaho in a smoking chain 400 miles (640km) long that finally peters out in Canada. So far this year 1.5m acres (600,000 hectares) of the state have burned, together with 5m acres elsewhere in America. If all the fires died down tomorrow, it would still be one of the ten most destructive years since records began in 1960. If this autumn resembles last year's, it will be the second-most. On balance, things are going rather well.

Until recently, such a smoky summer would have been seen as a catastrophe. Under the “10am policy”, all new fires were expected to be extinguished by that time the next morning. Most still are. But suppression is gradually giving way to tolerance. In addition to the 6.5m acres that have burned this year, more than 300,000 acres have been scorched by lightning-sparked blazes that are allowed to run their course until they reach pre-defined perimeters. A further 2.5m acres have been deliberately burned by foresters, mainly to thin out forests. Even fires that are targeted for extinction are allowed to burn longer than they used to.

One reason is practical: wildfires are increasingly hard to put out. Thanks to decades of zealous fire-suppression, forests are overcrowded and carpeted with dead trees and other fuels. A fire that might have trundled along the ground half a century ago now races upwards, tearing through the canopy and scattering embers downwind. The country's hardest-fought fire, above Santa Barbara in California, has already burned more than 200,000 acres and shows little sign of stopping. “We've got 3,000 firefighters there and it's still doing what it wants to do,” says Mike Wallace of the National Interagency Fire Centre.

Those firefighters now play a less heroic role. There is growing resistance to dropping “smoke jumpers” in the path of fast-moving fires, in part because of the fear of lawyers. Deaths and injuries frequently lead to civil suits. Later this year a supervisor will be tried for involuntary manslaughter in the deaths of four firefighters in 2001. For once the lawyers seem to be having a good effect. In each of the past 13 years at least ten people have died fighting wildfires. So far this year just four have, none of them on the front line.



Another big reason for the change of approach is scientific progress. Jim Thomas, who is fighting a huge blaze to the north of Boise, says it is much easier to preserve buildings these days, thanks to improved chemical foams and fire-retardant wrapping, which resembles tin foil. But halting a forest fire in its tracks

is as difficult and dangerous as ever. As a result, strategies have changed. The goal is no longer to stop fire but to limit property damage. A final reason is environmental: most scientists now think fires are beneficial to forests and the animals that live in them.

Such a laissez-faire approach to wildfire provokes much less complaint than it used to. In 1988 officials at first reacted calmly to fires that went on to consume around a third of Yellowstone National Park. The result was media uproar, a rebuke from President Ronald Reagan and a swift policy U-turn. This summer, by contrast, politicians who made a fuss about the failure to contain a huge fire in southern Idaho were slapped down. “Severe fire seasons? Get used to it,” sneered the *Idaho Statesman*.

It helps that few people live in highly flammable states such as Idaho, Montana and Wyoming, and that many of those who do are rugged individualists who do not want to appear dependent on federal agencies to save them. Yet that is changing, thanks to immigration from the coasts. Idaho, Boise and Valley Counties, where many of the fires are burning, had 23,000 residents in 1990. Today there are 34,000, many of whom live in remote houses surrounded by trees. As Mr Wallace complains, the need to protect an increasing number of such buildings makes his job much more difficult.

The new residents are a different breed, too. Many moved to Idaho for the views, which were not supposed to include charred hillsides. A few, though, play rugged individualists in films. As *The Economist* went to press, a fast-growing fire was bearing down on the resort town of Sun Valley, where Arnold Schwarzenegger and Bruce Willis have holiday homes.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Sanctuary

Not hiding but talking

Aug 23rd 2007 | SAN JOSE
From The Economist print edition

And hoping to change the law

THE Holy Redeemer Lutheran Church in San Jose, California, shares its building with four other congregations, including Korean and Vietnamese Baptists. Small as it is, the church has declared itself a part of a new movement. The Rev John Freesemann and his 55 parishioners have joined congregations in more than 50 other cities to offer refuge to illegal immigrants.

The first sanctuary movement began in the 1980s, with over 500 churches and community organisations offering refuge to Central Americans who were fleeing death squads and civil wars. Although six of the founders were convicted of conspiracy for their efforts, the movement provided shelter for thousands.

The New Sanctuary Movement, which was launched in May, is very different. It is open to immigrants from all countries and, more strikingly, those who seek sanctuary are asked to make their names and situations public. “In the past we were concealing people, but as people listen to our stories they begin to think about human consequences to these policy solutions,” says the Rev Alexia Salvatierra, the executive director of the movement. This, she hopes, may lead to a change in the law.

A willingness to go public is not the only qualification needed. Immigrants must have received an order of deportation and have a good work record; their children must be American citizens, and they must have “a potential case under current law”. These requirements have limited the number of people seeking official sanctuary. Only five families have come forward in California. (In another famous case, a Mexican woman with an American-born son was this week deported after sheltering in a Chicago church for a year.) Timorousness has increased since last year, when immigration officials began raids across the country. More than 1,800 people have been arrested in northern and central California.

Earlier this month the Bush administration announced that employers must check the Social Security numbers of all employees against a federal database. If an employer knowingly keeps or hires an undocumented immigrant he may face a fine of up to $12,500 and a felony prosecution.

States, too, have been busy tightening up. They have passed 170 laws against illegal immigrants this year, more than double the number passed in 2006. Some states now bar undocumented immigrants from obtaining driving licences and public assistance, and many impose penalties on employers of undocumented workers, ranging from suspension of business licences to $50,000 fines.

Rather than go public, some immigrants may fight deportation by moving to cities like San Francisco, which since 1989 has declared itself a refuge. Although the designation has no legal weight, Gavin Newsom, the mayor, has said that no San Francisco city employee will help with immigration enforcement. Immigrants are also being reminded by rights groups that their houses cannot be searched without a warrant. Immigrants in San Jose, however, will have to rely on the Holy Redeemer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Defence fraud

Creative billing

Aug 23rd 2007 | COLUMBIA
From The Economist print edition

If your scam is brazen enough you can still hoodwink the Pentagon—for a while

EVERYONE knows about the $400 hammer and the $600 lavatory-seat, but these days defrauding the Pentagon is a seriously big business. Twin sisters from the town of Lexington, South Carolina, a few miles from the state capitol in Columbia, managed to swindle America's Defence Department out of no less than $20.5m over the past nine years by using an automated payment system intended to cut red tape and speed up shipments to troops.

In one case, Charlene Corley and her sister, Darlene Wooten, the owners of a small-parts company called C&D Distributors, shipped three machine screws costing $1.31 each to marines in Habbaniyah in Iraq. They then proceeded to charge the government $455,009 for transportation costs—and got paid.

The company also received $998,798 for shipping two 19-cent lock-washers, $492,097 for shipping a $10.99 threaded machine plug, $445,641 for shipping a single $8.75 plumbing tube elbow, and $403,436 for mailing six machine screws worth a total of $59.94.

C&D submitted these and other shipping invoices separately from 1997 onwards, and the system paid the sisters automatically. It wasn't until last September that the scheme was finally uncovered. Until then, however, the women were in “high cotton,” as they say in the South, buying four beach houses, ten fancy cars, boats and lots of jewellery. They also took expensive holidays and bought five businesses, including a cookie store.

All of this came to light in court last week when the 46-year-old Ms Corley pleaded guilty to defrauding the Pentagon. She was fined $750,000 and faces up to 40 years in prison. Ms Corley's lawyers tried to place most of the blame on her sister Darlene, who killed herself last autumn when the government began closing in.

American taxpayers may be relieved to know that the Pentagon has tightened its payment procedures in response to the sisters' scam. If only its officials could locate 190,000 assault rifles and handguns distributed during the past few years to Iraqi security forces. The Government Accountability Office reported recently that the weapons seem to have gone missing.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

José Padilla

Enemy combated

Aug 23rd 2007 | WASHINGTON, DC
From The Economist print edition

A guilty verdict leaves much unsettled

IN MAY 2002 José Padilla, an American citizen, was arrested at Chicago's O'Hare airport. Federal officials said that Mr Padilla, a former gang member and Taco Bell employee who was calling himself Abdullah al-Muhajir, had been training with al-Qaeda. He was, they said, planning to build a dirty bomb that could scatter radioactive material over a city, probably Washington, DC. The idea that al-Qaeda was finding disciples among Americans was troubling. But Mr Padilla's arrest was hailed as an early victory in the fight against Islamic terrorists and a sign that American intelligence agencies could co-operate to foil them.

Five years on, that triumph has been tarnished. On August 16th Mr Padilla and two co-defendants were convicted of conspiracy to murder individuals overseas, conspiracy to materially aid terrorists, and materially aiding terrorists in fact. Sentencing is set for December. He may go to jail for the rest of his life. Mr Padilla is a “bad guy”, as George Bush once put it. But he has nonetheless been treated badly.

AP

Justice delayed

Mr Padilla was originally arrested as a material witness. No charges were brought. The next month, Mr Bush issued an executive order declaring him an enemy combatant. Mr Padilla was transferred from New York to a navy brig in South Carolina, where he was held in isolation and denied access to a lawyer.

The idea that the government could scoop up an American citizen and detain him indefinitely without charge struck some people as odd. Unconstitutional, even. The Supreme Court took up Mr Padilla's case in 2004 but ruled against him on procedural grounds. His case had been filed in the wrong federal district. In a similar case, 2004's *Hamdi v Rumsfeld*, the court held that American citizens could be designated enemy combatants and detained but would nevertheless maintain a right to due process.

Before Mr Padilla's case made it back to the Supreme Court, the administration finally found an applicable set of charges. Mr Padilla was sent to the civilian courts and convicted. The key piece of evidence was an old application form for an al-Qaeda training camp in Afghanistan. It bore six of Mr Padilla's fingerprints.

In one sense the verdict vindicates the Bush administration. With Mr Padilla now convicted, officials can say it is a good thing he was in custody all this time. But the conviction also undermines the administration's argument that alleged terrorists need to be prosecuted before military tribunals because civilian courts are not equipped to handle them. In Mr Padilla's case the civilian court provided a fair trial and a just verdict, according to a White House spokesman. It would surely have been better to send him through the normal courts in the first place.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Health in schools

Fat and getting fatter

Aug 23rd 2007 | KANSAS CITY, MISSOURI
From The Economist print edition

Attempts to make schools healthier are faltering

Get article background

THE proportion of children in America who are overweight has tripled over the past 20 years and now exceeds 17%, according to the Centres for Disease Control and Prevention (CDC). The health problems that this causes include hypertension and type-2 diabetes, formerly known only among the nation's overweight adult population. A group sponsored by the National Institute on Ageing has warned that this may be the first generation ever to have a shorter lifespan than their parents.

All the while, the proportion of children who take part in daily exercise at high school has dropped from 42% in 1991 to only 28% in 2004, according to the CDC. Snacking has greatly increased; the Government Accountability Office found in 2003 that 99% of America's high schools now sell snacks and other food as well as providing lunches.

In an attempt to get the problem tackled at local level, Congress in 2004 passed an act directing school districts that get money from the national school-lunch programme to create “wellness” policies by the start of the 2006-07 school year. The districts were told to set standards for nutrition, physical activity and education about good food, then make sure that schools actually implement them.

One year after the deadline, the results are haphazard. School districts' plans range from a few paragraphs long to more than 25 pages. Some states, like Texas and Arkansas, have pre-emptively set standards for school districts under their jurisdiction, forcing schools to ban fizzy drinks and junk food while increasing the amount of exercise the pupils take. Others offer guidelines rather than mandates, with no repercussions for schools that don't comply. And in some areas, schools are being eased into change very slowly. Oregon's legislature passed a bill in June that gives its schools ten years to meet its new physical-education requirements.

Last October the School Nutrition Association (SNA), a pressure group, analysed health policies from the 100 largest school districts in the country, which account for almost a quarter of the nation's primary- and secondary-school students. Many districts had indeed created guidelines for nutrition education, physical activity and school food, as required, but the rules tended to be fairly broad. Some policies merely defaulted to the state recommendations and some to the federal government's minimal requirements. The physical-activity guidelines were also varied; only 62% of schools made physical education obligatory.

Action for Healthy Kids, another schools-oriented NGO, also looked at a smattering of policies last year. Of the 112 districts it analysed, only 30% specified a time requirement for physical-education classes and 42% offered only general guidelines for the sort of food and drink allowed to be sold in the schools. Cafeterias where nachos, French fries and cookies are tucked alongside salads, juice and fresh fruit do not encourage children to eat well.

The SNA has now done a follow-up. It found that less than half of the schools were implementing their nutrition-education guidelines and enforcing vending-machine rules. The sporty bits fared better, with 64% of the schools meeting their physical-education requirements.

Bringing the issue to a local level is meant to make up for the dearth of guidelines from the federal government. Other than banning chewing-gum and sweets from the cafeteria at lunchtime, there are no national guidelines for food sold outside the school lunch programme, nor are there any requirements for physical education. So far, the 2004 act does not seem to be doing enough to change that.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

How mighty is the Penn?

Aug 23rd 2007
From The Economist print edition

Illustration by Kevin Kallaugher

Is there another Karl Rove waiting in the wings?

A VICTORY lap it wasn't. Karl Rove, who last week announced that he is quitting as George Bush's chief adviser, was all over the political talk shows last weekend. He landed a few punches on the Democrats in general and Hillary Clinton ("fatally flawed") in particular. But he spent much of his time on the back foot—fending off criticisms of Mr Bush's administration and his own attempt to build a Republican majority. It will all look much better in the light of history, he argued.

All very interesting. But even as Mr Rove defended his achievements, Washington's attention was turning to the question of who will replace him. Not as adviser to Mr Bush; most politicos have given the president up as a lost cause. But who among the plentiful new crop of advisers to would-be presidents will be pre-eminent? Who will design a winning campaign? Who will reshape the political landscape? And how will the new Rove differ from the old Rove?

One candidate stands head and shoulders above all the others: Mrs Clinton's chief strategist, Mark Penn. This is not just because Mrs Clinton is probably the favourite to win the presidency. It is also because Mr Penn is a compelling figure in his own right—a polling genius who has established a huge influence over Mrs Clinton's campaign. Mr Penn is responsible for crafting her political image. He also advises her on everything from long-term strategy to crisis management. Little happens in Hillaryland without Mr Penn's say-so.

There are striking similarities between the new Rove (53) and the old (56). They are both masters of demographic trends and poll data. They are both fixated on the possibility of realigning chunks of the electorate—Latinos in Mr Rove's case, suburban mothers in Mr Penn's. They both like peering into the future. Mr Rove made much of the fact that the president won 97 of the 100 fastest-growing counties in 2004. Mr Penn, who is no fan of Democrats who dream of recreating the New Deal coalition, is about to publish a book, "Microtrends: the Small Forces Behind Tomorrow's Big Changes".

They both believe that the Democrats' biggest vulnerability lies in national security. Mr Rove kept insisting this weekend that national security might provide the Republicans with the one issue that they can use to win in 2008. Mr Penn has fought hard to persuade Mrs Clinton not to apologise for voting in favour of the war in Iraq. He believes that this would send a message of weakness, and allow the Republicans to begin to reopen the national-security gap.

The Clinton-Penn campaign also has some striking similarities to the Bush-Rove campaign of 2000. Mr Penn was there from the very beginning: he first got to know the Clintons in 1995 and managed Mrs

Clinton's Senate campaigns in 2000 and 2006. He has put a premium on the “inevitability factor”—swatting aside Democratic doubters who worry that she is too polarising and cluster-bombing turncoats like David Geffen who back Barack Obama. And Mr Penn has a Rove-like enthusiasm for micromanaging as many details of the campaign as he can.

The power of the centre

The big difference between the two lies in their political philosophy. Mr Penn is a committed centrist who thinks elections are won by wooing swing voters rather than revving up the base. He is happiest with the politics of “triangulation” (ie, poaching supposedly Republican issues) and with micro-issues that are heavy on symbolism, such as school uniforms. He is a visceral foe of the politics of class war as sometimes practised by Bob Shrum, who lost all eight of the presidential campaigns he worked on.

Mr Penn's centrism is partly a matter of personal sympathies. His strongest ties are to conservative Democrats. He cut his teeth working for Ed Koch in New York. He worked closely with the Democratic Leadership Council, and more generally with the so-called “national security” Democrats. He has a long record as a friend of Israel and as an advocate of regime change in Iraq. He helped to run Joe Lieberman's campaign in 2004.

It is also a matter of self-interest. Mr Penn is the very embodiment of the Washington-business nexus. The WPP Group, a public-relations giant, turned him into a multimillionaire when it bought his consulting firm in 2001. It then made him chief executive of one of its subdivisions, Burson-Marsteller, in 2005. Burson-Marsteller is a global behemoth with 100 offices in 59 countries, annual revenues of around $300m, and some of the world's biggest companies among its clients.

This suggests another difference: there is little chance that Mr Penn will try to wield Rove-sized influence over a Clinton White House. This would hardly be a sensible thing to attempt, given that Mrs Clinton's closest and smartest political adviser is her husband. But Mr Penn also has far too much on his plate. Mr Rove was single-mindedly focused on his master's political career (and, indeed, Mr Bush forced him to sell his direct-mailing company in 1999 in order to avoid any possible conflict of interest). Mr Penn continues to run Burson-Marsteller and to manage its Microsoft account himself. Conflict of interest be damned.

This all sounds like a formula for success: a brilliant pollster who will steer his candidate to the centre but who will not try to turn an election victory into a White House empire. Perhaps it will be. But Mr Penn may have a weakness of his own—his umbilical ties to business interests and his visceral distaste for anything that smells of populism. The left already regards him as exemplifying everything that is wrong with the Democratic establishment. Continued economic problems may intensify resentment of the Beltway fat cats. Mr Rove eventually fell because he tried to change American politics too much. Mr Penn's biggest problem—and perhaps Mrs Clinton's too—is that he wants to change too little.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Peru

After disaster struck

Aug 23rd 2007 | PISCO
From The Economist print edition

Reuters

A powerful earthquake leaves chaos, homelessness and a daunting task of rebuilding in a once prosperous region

ONCE a busy port town of around 60,000 people, Pisco and its narrow streets have been reduced to rubble. Thousands of townspeople nest among the few belongings they were able to save from the wreckage of their homes and lives. Three days after a massive earthquake hit Peru's southern coast on August 15th, the air was still thick with dust.

The earthquake, whose epicentre was close to an active fault line, measured 8.0 on the Richter scale. That was even more powerful than one in 1970 which killed some 70,000 in northern Peru. This time the loss of life was relatively light. When efforts to find survivors stopped, the death toll had reached over 500. More than a thousand were injured.

But some 100,000 people were made homeless, in what was one of the country's more prosperous and economically dynamic areas. The destruction was almost total in a 150km (95 mile) stretch of Peru's coastal desert south of Lima from the fishing village of Cerro Azul to Ica, a regional capital. In Pisco, all but a handful of buildings either collapsed or were so badly damaged that they must be demolished. Much the same goes for Chincha, a once bustling farming town. Some outlying villages on the slopes of the Andes in the Huancavelica region also suffered.

Almost inevitably, the past few days have been marked by chaos and some looting in the worst-affected areas. Gradually, a huge effort by aid agencies moved more than 12,000 tonnes of food, water and supplies to the disaster zone by air and road. Electricity is slowly returning; officials hope water supplies will soon follow.

A daunting task of reconstruction lies ahead. The government has granted $1,900 to each family whose home was destroyed, and money for funeral expenses and for the injured. President Alan García, who spent three days in Pisco directing the aid effort, said that 8,000 local people will be hired for a rebuilding programme for which $95m has been budgeted. That looks far too little: the association of engineers reckons it will cost $600m to rebuild Pisco and Chincha alone.

Besides homes, the government will need to rebuild most schools—only one of 91 day nurseries in Pisco is still standing—and some hospitals and prisons. Two prisons collapsed: 600 prisoners escaped from one after the walls fell down. About a third of them gave themselves up over the following week, but the

incident added fear of assault and theft to the multiple sufferings of the earthquake's survivors.

Nearly all the homes that collapsed were of adobe, mainly lived in by poorer Peruvians. They were picturesque but lethal. Unless Peru's architects offer swift help, some of its more attractive coastal towns are likely to be reborn as ugly but practical cinder-block affairs.

A first priority is to repair long stretches of the Pan-American highway, Peru's main coastal artery, which collapsed. What is normally a journey of under three hours from Lima to Pisco now takes eight. In 2005 the road's management was turned over to a private consortium which is supposed to invest $275m making it into a motorway from Cerro Azul to Ica in return for toll revenues. Officials were talking to the consortium about emergency repairs.

Fixing the road is crucial to minimising the economic impact of the earthquake. The farms of the Ica region are a centre for Peru's booming exports of asparagus and other crops. Fishing and textile businesses also depend on the highway and the port of Pisco. The government may now expedite plans to privatise the port, to attract the capital needed to rebuild it.

Farmers are losing some $50,000 a day because of transport problems. They could lose export contracts if the road is not back within a month or so. The dozen fishmeal plants in the area face a repair bill of around $30m, reckons Walter Martínez of Hayduk, a fishing company.

Tourism, too, will be curtailed for a while. Several centuries-old *haciendas* turned into resort hotels have been badly damaged. A natural rock formation, known as the Cathedral, in the Paracas National Reserve, crashed into the sea. Perhaps the only good news was that a plant processing distillates from the Camisea natural-gas field was unscathed, as was a $2.5 billion gas liquefaction terminal being built at Pisco.

According to some forecasts, the disaster could knock as much as a percentage point off economic growth, forecast to be almost 8% this year. Others believe that rebuilding will offset that. The earthquake is a political test for Mr García. He was criticised for not letting local authorities do their job. The government's response to the emergency was less than perfect. But given the difficult circumstances, it has so far not been that bad either.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Hurricane Dean

Hit and near miss

Aug 23rd 2007
From The Economist print edition

AP

Hurricane Dean struck Mexico's Yucatán peninsula on August 21st as the third-strongest Atlantic storm on record, with winds of up to 165 miles (270km) an hour. Fortunately its landfall was in a sparsely populated area, although hundreds of Mayan village houses were said to have been destroyed. Cancún, hit badly by a hurricane two years ago, was evacuated but spared. The storm prompted a shut-down of Mexico's gulf oilfields and flooded several towns before weakening. Dean did its worst damage in Jamaica and the eastern Caribbean, killing 20 people, flooding houses and wiping out banana crops. This year, for the first time, many Caribbean governments have taken out hurricane insurance.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mexico and the United States

Death in the desert

Aug 23rd 2007 | SASABE AND TIJUANA
From The Economist print edition

The impact of tighter border security

SASABE is the kind of town where half the pick-up trucks have four flat tyres and half have no wheels at all. Groups of migrants clutching plastic water jugs gather by the side of the road across from a brickyard, the town's only industry. Teenaged Mexican soldiers man a checkpoint on the main, dirt road, a couple of miles from the border. They are, says one, just looking for drugs. At the border crossing, an hour's drive south-west of Tucson, United States immigration officials wave through anyone who is well-dressed and who speaks good American, without even checking their documents.

The rest must head north-west through the tribal lands of the Tohono O'odham or north-east through the Buenos Aires National Wildlife Refuge (see map). Both routes involve a three- to four-day walk through a stretch of desert that has become one of the busiest routes of illegal entry to the United States.

To the disappointment of Mexico's government, George Bush has failed to deliver his promised reform of America's immigration law. His aim had been to let an estimated 12m illegal migrants regularise their situation and allow greater numbers to enter legally. The United States is instead now tightening border security. At federal level, measures include the temporary deployment of 6,000 National Guardsmen and a permanent expansion of the Border Patrol, from 9,000 agents in 2001 to over 14,000. There have also been piecemeal local crackdowns. Arizona's governor signed a law last month that, if confirmed by the courts, would levy stiff penalties against firms that knowingly employ illegal immigrants. One Arizona sheriff trumpets himself as “America's toughest”.

The fencing in of urban areas such as San Diego and El Paso had already driven more migrants to cross the Sonora desert. As a result, the annual death toll of would-be immigrants more than doubled in the decade to 2005, to 472, according to America's Government Accountability Office, a congressional watchdog. No More Deaths, an immigrant-rights group, reckons that 147 migrants have died in Arizona alone since the beginning of October.

Tighter security and greater risk may be acting as a deterrent. The Pew Hispanic Centre, a research group in Washington, DC, says the flow of migrants has probably been falling since mid-2006. Fernando Solana, of the Mexican Council on Foreign Affairs, a think-tank, speculates that the number crossing the border could have fallen by up to 30% this year compared with last. Merchants in Altar, an hour and a half's drive south of Sasabe, where many migrants buy provisions, say that business is slower. A flop-house proprietor reports more return customers than before—deportees from Arizona who stay with him before trying to cross again.

And yet not everyone agrees that the regular annual flow of roughly 500,000 migrants is diminishing. And if it is, tighter security may not be the only reason. Mr Solana points to the sharp fall in housebuilding, and thus in demand for building workers, in the United States. Carlos Rico, Mexico's deputy foreign minister for North America, notes that an earlier fall in the birth rate means there are fewer young adults in Mexico.

For decades, migration to America has been a safety valve for Mexico, which struggled until recently to create enough jobs for its young. Meanwhile, across the border, demand was strong for unskilled migrant labour in industries such as farming, construction and catering.

Much as he laments the American crackdown, Mexico's new president, Felipe Calderón, has not taken up the fruitless campaign of his predecessor, Vicente Fox, to talk the United States into adopting a more liberal immigration policy. Elected last year on a promise to be the “president of jobs”, Mr Calderón is trying instead to persuade his Congress, where he lacks a majority, to approve reforms that would increase Mexico's growth rate. If he succeeds, America's crackdown might help the Mexican economy, by increasing the pool of available workers at home.

Nothing is certain however. If Mr Calderón's reform bills get stuck in Congress, as those of Mr Fox did, the closing of the safety valve of migration may threaten Mexico's political stability. And there are worries that stricter border security is hampering bilateral trade, which has boomed under the North American Free-Trade Agreement. At the Tijuana-San Diego border crossing, one of the busiest, vehicles wait up to three hours to enter the United States. There are no plans to expand the capacity of the checkpoints.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Canada, the United States and Mexico

Diverted by jelly-beans

Aug 23rd 2007 | MONTEBELLO, QUEBEC
From The Economist print edition

No sight yet of a North American Union

TWO years ago George Bush agreed with the leaders of Canada and Mexico to set up a so-called Security and Prosperity Partnership to look at ways of deepening the North American Free-Trade Agreement (NAFTA) that links their countries. Some detected a conspiracy to create a North American Union. They can relax: talks this week at Montebello, a resort near Ottawa, between Mr Bush, Canada's prime minister, Stephen Harper, and Mexico's president, Felipe Calderón, were “practical” according to the host. As an example, Mr Harper revealed that time had been spent discussing standardising labels for jelly-beans.

Officials in all three countries have worked on similar attempts to harmonise rules on everything from food to how to respond to health scares and tainted imports. This is useful, no doubt, but so small-scale as to be almost invisible, which worries some people.

In its relations with its neighbours, the United States has since September 11th 2001 treated security as paramount: it has steadily increased checks at the borders. Canada and Mexico hoped the new initiative would be more about prosperity, ensuring that goods and people can still cross freely. The two issues are of course linked. But the recent rise in protectionist and anti-immigrant sentiment in the United States has constrained the talks still further.

So the issues at Montebello were mainly bilateral. Mr Bush and Mr Calderón reviewed a plan under which America will help Mexico combat drug-traffickers. This will involve helicopters, spy planes and training, and could be worth up to $1 billion, according to Mexico's foreign minister. But the plan was not finalised at the summit. Mr Bush praised the “brilliant” performance of Canadian soldiers in Afghanistan. He and Mr Harper also talked about the Arctic. But they did not agree about the Northwest Passage, over which Canada claims sovereignty but which the United States calls international water.

A serious effort to deepen NAFTA would probably require greater involvement of legislatures and of interest groups. Placard-waving protesters at Montebello were incensed that the only outsiders at the meeting were a group of businessmen from the three countries. But such an effort would require stronger political leaders. Mr Bush's presidency is in its twilight and Mr Harper leads a minority government. Though Mr Calderón's electoral victory last year was narrow and disputed, his domestic position is the strongest of the three. He was also the bluntest at Montebello. “I believe we should reassess—or we should have our people reassess—what all this means to the common citizen,” he said. Then he left early to check on Hurricane Dean (see article) as it crashed across his country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela

Tuned up

Aug 23rd 2007 | CARACAS
From The Economist print edition

A pioneering youth-orchestra scheme attracts attention

THE view that young classical musicians will have over the streets of Venezuela's capital from the windows of their spanking new $27m academy is of a traffic-clogged urban landscape blighted with crime, drug abuse and prostitution. It is hard to imagine a greater contrast with the hushed, computer-enhanced acoustics of the academy's 1,100-seat concert hall and 90 classrooms.

But this is no elite conservatory for sheltered rich children. Nor is it a product of the “21st century socialism” of Venezuela's controversial president, Hugo Chávez. It is the new home for what Venezuelans call simply “the system”—a network of youth orchestras that nurtured the prodigious talent of Gustavo Dudamel.

At the age of 24 Mr Dudamel conducted at a Prom concert in London's Albert Hall in 2005. On August 19th he was back there with the Venezuelan national youth orchestra for an encore that brought rave reviews. His success has focused attention on the youth-orchestra scheme, conceived 32 years ago by José Antonio Abreu. “The maestro”, as he is known, “has always maintained that a society can be rescued through music,” says Marco Pitrelli, who is in charge of building the new academy.

Over three decades and despite big political upheavals, Mr Abreu's scheme has expanded to cover 75 centres across the country, each of which has at least one youth or children's orchestra. Some 250,000 young people receive free tuition; four-fifths are from poor backgrounds and many have physical or mental disabilities. As well as musical training, some learn how to make instruments.

The benefits have been widespread. A 1998 study by psychologists from the University of the Andes found that participants, who include formerly violent delinquents, tended to steer away from crime, drugs and other temptations. They also showed marked improvements in academic performance, self-esteem, leadership qualities and social integration.

The new academy will provide teaching facilities for over 2,000 children at a time. Seven smaller facilities are to be built in the provinces. Money for the scheme comes not just from Venezuela's government and state oil company but also from the Inter-American Development Bank and other donors.

Since receiving UNESCO's international music prize in the mid-1990s, the scheme has been copied in more than half a dozen other countries in the region and, more recently, in Scotland. In a politically polarised country, it is one of the few things all Venezuelans take pride in.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Thailand

Not a vote for the generals

Aug 23rd 2007 | BANGKOK
From The Economist print edition

Getty Images

What will Thailand's generals do if Thaksin Shinawatra's supporters look like winning the coming election?

THAILAND'S army chiefs seem to have overestimated their popularity, as military dictators often do. They staged a massive propaganda effort to get people to turn out and vote in August 19th's referendum—the country's first ever—and to say yes to a new constitution written by a military-appointed panel. Yet the turnout was a tepid 58%. And though the constitution was approved, the yes vote was just 57%. Some of those voting yes will have done so only because the passing of the constitution paves the way for elections, promised for December. They were voting to hasten the end of the military dictatorship, not to express support for it.

The referendum showed that Thailand remains deeply divided: in the poor and populous north-east, a stronghold of Thaksin Shinawatra, the elected prime minister deposed in last September's coup, 62% voted to reject the charter. In the south, a stronghold of the Democrats, the main opposition in the last elected parliament, the yes vote was 88%. In recent months, graft-busting panels appointed by the military have begun to bring corruption cases against Mr Thaksin, who is exiled in Britain. In the week leading up to the referendum, the Supreme Court issued an arrest warrant for him, for failing to appear at a hearing for alleged corruption over his wife's purchase of a chunk of prime state-owned land in Bangkok. But the high rejection rate for the generals' constitution in Mr Thaksin's heartlands suggests that his popularity has largely survived the efforts to discredit him.

After the referendum on August 19th, General Surayud Chulanont, the prime minister, insisted that elections would “definitely” be held in late December. But three days later General Sonthi Boonyaratglin, the army chief, felt obliged to deny rumours, which had caused a stockmarket slump, that some sort of further coup was in the works.

Mr Thaksin's Thai Rak Thai (TRT) party was dissolved in May by a Constitutional Tribunal set up by the junta, for misdeeds in a general election held in 2006 and subsequently annulled. He and over 100 of his cronies were barred from politics for five years. However, more than 200 former TRT parliamentarians subsequently joined the obscure People's Power Party (PPP). Their numbers comfortably exceed the 96 seats that the Democrats won in the last valid election, in 2005 (compared with TRT's 375). So the PPP may enter the coming election campaign as frontrunner.

The prospect of a reborn Thaksinite party leading the next government is surely not one the generals would relish. The plan, it is assumed, was that after TRT's demise Thailand would return to the weak and short-lived coalition governments that had preceded its rise to power in 2001. Several changes in the new constitution—such as the merging of single-seat constituencies into larger ones in which the second- and

third-placed candidates would also win seats—seem designed to give lesser parties more of a chance and thus increase the likelihood of unstable multi-party coalitions.

If so, the royalist-military elite who staged the coup would be able to return to exerting influence behind the scenes, as they did in pre-Thaksin times. General Sonthi has even been flirting with the idea of standing for parliament himself, hoping to be invited, in the absence of an alternative leader, to be prime minister at the head of such a coalition government.

However, if the PPP won hundreds of seats and emerged as the mainstay of the next government, these hopes would be dashed. Even more alarming for the generals, the PPP has been courting Samak Sundaravej, a fiery right-winger and former governor of Bangkok, to be its leader. Mr Samak is a fierce critic of General Prem Tinsulanonda, a former prime minister who is chief adviser to King Bhumibol and, it is widely assumed, was the driving force behind the coup. By a convenient coincidence, this week the auditor-general's office suddenly announced plans to bring charges against Mr Samak over four-year-old corruption allegations.

In the generals' worst nightmares, the Thaksinites win control of the government and use their power to fix things so that Mr Thaksin gets off his corruption charges and his ban from politics is lifted. Then they amend the just-approved constitution to remove the amnesty that it grants to the coup-makers. It seems unlikely that the army will let this happen.

A compromise is still imaginable, for instance if a PPP-led coalition chooses a more emollient prime minister. One name being mentioned a lot in Bangkok is that of Chavalit Yongchaiyudh, an elderly former general who is said to have reasonably good relations with both Mr Thaksin and General Prem, and a strong desire to return to politics. Mr Chavalit, however, had a disastrous stint as prime minister ten years ago. His government badly mishandled Thailand's financial crisis, which soon spread to much of the rest of Asia.

Several more months, at least, of uncertainty lie ahead. By the time the election is held—assuming it goes ahead on schedule—Thailand's political agony will have dragged on for two years. This has taken a toll on the economy, which is expected to grow by only 4% this year, much less than the rest of South-East Asia. Even in this respect, the generals cannot boast that they have done better than the politicians.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South Korea's presidential election

The bulldozer scrapes home

Aug 23rd 2007 | SEOUL
From The Economist print edition

But can Lee Myung-bak unite the conservative camp?

Get article background

TO THE tune of “Go West”, a song by the Pet Shop Boys, supporters of Lee Myung-bak sang his name at a Seoul convention centre. He had just won a bitter contest to become the presidential candidate of South Korea's opposition Grand National Party (GNP). Just 1.5 percentage points separated the victorious Mr Lee from Park Guen-hye, who graciously accepted defeat, though her supporters noisily chanted allegations of fraud by Mr Lee.

The party has lost the past two presidential elections in part because conservative forces were divided. So Mr Lee's main task now is to unite the GNP for the election in December. To this end, Mr Lee said he would like Miss Park to head an election-planning committee. She has not yet responded to the overture.

Mr Lee also needs to claw back some lost popularity. He had an impressive four years as mayor of Seoul, improving the public-transport system and winning plaudits for cleaning up and beautifying the city. But his standing has since been battered by allegations that he has profited from improper property transactions.

Few observers, however, underestimate the man nicknamed the “bulldozer”. Mr Lee is well placed to win in December, if only because voters are fed up with President Roh Moo-hyun's bumbling economic policies and fractious rule.

Mr Lee's life story is a mirror of the remarkable transformation of South Korea from poverty to the world's 11th-largest economy. The inspiration for two television soap operas, he saw his brother and sister killed by American bombs in the Korean War, himself suffered malnutrition and hauled rubbish in a handcart to pay for his university studies. But he was appointed chief executive of Hyundai Engineering & Construction at the age of 35, and went on to lead nine other Hyundai affiliates before entering politics.

Mr Lee has grand ambitions for South Korea. He wants it to become the world's seventh-largest economy, achieve 7% annual economic growth and see its GDP per head rise to $40,000. Controversially, he also wants to build a 540km (340 mile) inland canal at a cost of 14 trillion won ($15 billion) to ease road and rail congestion and bolster growth.

On relations with North Korea, Mr Lee has said that if Pyongyang gives up its nuclear weapons, South Korea and other countries should give economic assistance to lift the average annual income of its benighted people to $3,000 in ten years. He wants to repair what he sees as the damage done by the present administration to relations with America. President Roh has pushed for a reduction in American troops and for all military forces in the country to be under South Korean command. Mr Lee maintains that, surrounded by China, Japan and Russia, South Korea cannot maintain its territorial integrity without American protection. He really does want to “Go West” as president.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Myanmar

Fuelling discontent

Aug 23rd 2007 | BANGKOK
From The Economist print edition

A sharp hike in fuel prices, then a clampdown on dissent

Get article background

ONE week after unexpectedly imposing huge rises in fuel prices, Myanmar's military dictatorship on August 22nd arrested 13 prominent dissidents who had led protests against the increases. Without explanation, or even a formal announcement, petrol was put up by two-thirds, diesel doubled and canisters of gas quintupled in price. Four days later pro-democracy activists staged a rare, 400-strong demonstration on the streets of Yangon, the main city. Further protests followed this week's arrests.

Several of those arrested this week have already served long prison sentences over a student-led uprising in 1988, which was brutally put down by the army. In recent months, members of this “88 Generation Students' Group” have been cautiously stepping forward as a younger alternative to the ageing National League for Democracy, led by Aung San Suu Kyi, the country's opposition leader, who is under house arrest.

EPA

Conqueror of kings, one day

The 88 Generation is led by Min Ko Naing (a *nom de guerre* meaning “conqueror of kings”) who was released in 2004 after 15 years in jail, only to be arrested again last September and held for four months. His group's recent protests have been aimed at highlighting the junta's economic bungling and the misery this is causing the Burmese people. They have been kept under surveillance but tolerated—until now.

The sudden rise in fuel prices may simply mean that the regime has run out of money for subsidies: even now the cost is still below international market rates. Though the junta earns over $1 billion a year selling natural gas to Thailand, the weakness of the domestic economy has undermined tax revenues.

Or the sharp price rises may have been intended to divert attention from the regime's difficulties with a much-delayed constitutional convention. The junta has promised that, after 14 years of deliberations, the convention will complete its work next month. Several of the country's armed ethnic-minority groups agreed to ceasefires in order to take part in the convention. But they are now rejecting demands that they disarm permanently before a referendum is held on the future constitution. One observer in Yangon speculates that the generals may have actually wanted the fuel-price rise to trigger unrest that would “justify” stalling political change yet again.

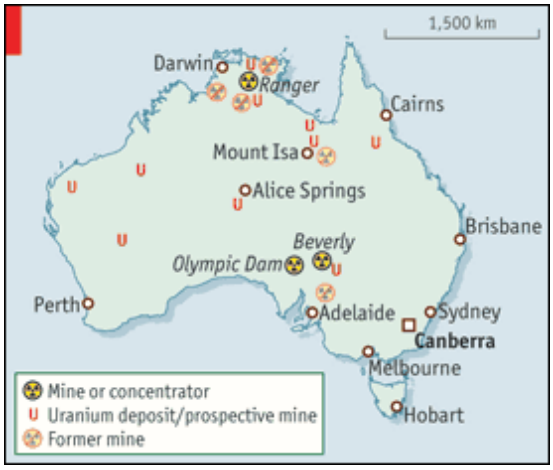
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Australia's uranium mines

The Indian exception

Aug 23rd 2007 | SYDNEY
From The Economist print edition

The deputy sheriff does his bit for America's nuclear deal with India



Get article background

WHAT Australia's outback deserts lack in water they make up for in uranium. They contain almost 40% of the world's known low-cost reserves of the nuclear fuel. It is big business for Australia: exploration companies are at present spending ten times more money searching for deposits than they did three years ago. And ore from Australia's three operating mines supplies about a quarter of the world's uranium-oxide exports. Until now all this has gone to countries that have signed the Nuclear Non-Proliferation Treaty (NPT). This ensures, in theory, that they will use it to produce electricity rather than bombs. But on August 16th John Howard, Australia's prime minister, said he would lift a ban on selling uranium to India, which refuses to sign the NPT, has tested nuclear weapons and does not rule out testing more.

Mr Howard says the sales will be subject to “strict conditions”. India will first have to sign a safeguards agreement with Australia, guaranteeing that none of its uranium will be diverted to weapons. As part of an agreement with America (see article), it is also to submit to inspection by the International Atomic Energy Agency of some of its civil nuclear reactors. Yet environmentalists have accused the government of spoiling Australia's strong record on nuclear non-proliferation.

Australia's safeguards regime was drawn up in the late 1970s when a former conservative government agreed to open up newly discovered uranium deposits in the Northern Territory for mining and export. America, Japan and South Korea are among Australia's biggest customers.

Mr Howard first flagged the change of Australia's nuclear policy during a visit to New Delhi in early 2006. In part, he was echoing America's earlier decision to overturn a 30-year ban on sharing civilian nuclear technology with India: as one of America's closest allies, Australia is well placed to help India fuel its expanding nuclear-energy needs. But Australia is also keen to build a solid regional relationship with India similar to those it already has with Japan and China. Relations with India soured after Australia strongly criticised its nuclear weapons test in 1998.

Mr Howard also wants to bolster his credentials as a promoter of clean (read nuclear) energy. Uranium mining has always divided Australians, but more seem to be leaning towards an expansion of the industry in response to global warming. The opposition Labor Party only recently dropped its policy of limiting mining to the three working mines. Labor still says it will ban any uranium sales to India if it wins an election due at the end of this year, as opinion polls suggest it might.

Other doubts linger over the deal, notably the fate of the America-India agreement itself. It also needs approval from the 45-nation Nuclear Suppliers Group. If it survives all that, argues Rory Medcalf of the Lowy Institute, a Sydney think-tank, Australia should see the deal as an opportunity: to use its clout as a uranium supplier to build strong anti-proliferation safeguards outside the “imperfect instrument” of the NPT. Should India test another bomb, public outrage, he reckons, would kill uranium exports in a flash.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

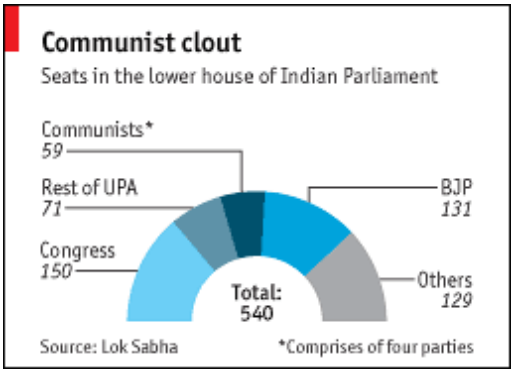
India, America and Japan

Democratic baggage

Aug 23rd 2007 | DELHI
From The Economist print edition

The Communists see red over India's nuclear deal with America

Get article background



HAVING for two years glowered at a gift-horse, India's Communist parties are trying to wrench out its molars. A furore has engulfed the country's Parliament over a nuclear co-operation deal with America, the terms of which were finalised last month. On August 18th the biggest of the four communist parties—the Communist Party of India (Marxist)—warned the government of "serious consequences" if it pursued the agreement. The deal does not require Parliament's approval. Yet the Congress-led government of Manmohan Singh needs the parliamentary support of the Communists to pass legislation (see table).

This is not new ground. The Communists have indulged in periodic ideological grandstanding ever since offering the government their "outside support" in 2004. They have ensured that Mr Singh, a noted economic reformist, has attempted only a handful of modest reforms. Yet the nuclear deal, which took two years to negotiate, symbolises India's fledgling strategic relationship with America. It is central to Mr Singh's foreign policy. India is also getting cosier with America's allies, such as Australia (see article) and Japan, whose prime minister, Shinzo Abe, visited Delhi this week.

Mr Singh has therefore refused to concede an inch of the deal. Indeed, it cannot be renegotiated. So, with scant room for compromise, either the government or the Communists will be bruised.

A nuclear-arms power, India has been barred from civilian nuclear trade by America and other countries because it refuses to sign the Nuclear Non-Proliferation Treaty (NPT). Now America is to make India an exception to this rule. It would supply India with civilian nuclear fuel and technology provided it submits to safeguards on its civilian nuclear programme and separates it from its military one.

For anti-proliferation diehards, this would threaten the NPT. Worse, under the final agreement, which must be approved by the International Atomic Energy Agency (IAEA), the Nuclear Suppliers Group (NSG) and America's Congress, India won further concessions. In particular, it would retain the right to reprocess atomic fuel for energy generation—a procedure which also yields fissile material for weapons—in a purpose-built facility. The final settlement also muddied a central concern: that the deal would be off, and America's nuclear technology returned, if India tests another nuclear weapon. How and when—and even whether—this technology would be returned is left unclear.

At a meeting of the IAEA next month, India hopes to get approval for "India-specific" safeguards. It would then appeal to the NSG—a 45-nation anti-proliferation union—for its blessing. America's Congress might then be asked for its final approval early next year. The stand-off in Delhi is jeopardising this timetable.

The Communists say the government should not appeal to the IAEA before renegotiating the deal's contents with them. Otherwise, according to the boss of the second-biggest party, the Communist Party of India, "there is no doubt" that they would ditch the government.

The government says it would be delighted to discuss the deal with its friends on the left, but suggests there would be little point, for two reasons. First, the deal could be changed only by renegotiating with America, which would be fruitless and make India a laughing-stock. Second, the Communists object to closer ties with America, period.

This at least is coherent—unlike the objection of the main opposition Bharatiya Janata Party (BJP). The BJP, which led a coalition government that tested a nuclear bomb in 1998, says the deal would impede

India's weapons programme. The reverse is more likely. Out of nuclear isolation, India could funnel its own modest uranium supply into its weapons programme.

In the end, the Communists will probably climb down—after all, even if the government falls, the deal will stand. They are anyway not keen to fight an election on an issue for which most Indians—poor and rural—probably care not a fig. Even so, the rumpus may hasten the government's end. Many think that elections, due by May 2009, will now be held next year.

At least the upheaval should encourage empathy between Mr Singh and Mr Abe, whose party took a beating in upper-house elections last month. Japan has big misgivings about the nuclear deal. But Mr Abe's visit repays one by Mr Singh to Tokyo last December and has excited talk of an Asian “axis of democracy” against a rising China. Indo-Japanese relations are certainly improving. Japan backed India's attendance at the inaugural East Asia Summit in 2005. Japan, India and America held joint naval exercises in April off Japan. Next month Australia will join them in fresh manoeuvres in the Bay of Bengal.

In Delhi, however, Indian and Japanese officials were predictably keen to keep the strategic talk low-key. They stressed that Mr Abe had come principally to discuss trade between their two countries. It is currently puny—$6.6 billion last year—but could double within five years, according to a recent study.

A huge boost would be provided by a vast industrial zone, stretching 1,500km (930 miles) from Delhi to Mumbai, that India wants to develop as a hub for Japanese manufacturers. Despite the benefits the scheme might bring both countries, its implementation seems almost unimaginable. An economic reform pursued by Mr Singh, a more modest scheme to provide plots of 5,000 hectares (12,000 acres) for industrial development, has been bedevilled by difficulties in acquiring land. A Japanese official in Delhi also expressed astonishment at reports that Japan would commit $10 billion to the Delhi-Mumbai scheme. The figure has been widely touted in India's lively press, which, like parliamentary debate, is an important underpinning of an energetic democracy.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Pigs in China

Death on the farm

Aug 23rd 2007 | BEIJING
From The Economist print edition

Making a pig's ear of disease control

WITH pigs dying all over the country and the price of pork soaring, China has come under suspicion of attempting to cover up a dangerous outbreak of an infectious disease. It is not the first time such suspicions have fallen upon China, and though the government's performance in this case has shown some modest improvement, it is not likely to be the last.

As a health threat, the current outbreak of Porcine Reproductive and Respiratory Syndrome (PRRS), also known as “blue-ear pig disease”, is nothing like the earlier cases, where human lives were at risk. Avian influenza has appeared in pockets in China in recent years and has occasionally spread to—and even killed—humans, but PRRS can affect only pigs. It is even less like Severe Acute Respiratory Syndrome (SARS), a highly contagious human disease, which in 2003 killed hundreds worldwide as panic and quarantine measures brought China close to a standstill.

But in its handling of the PRRS outbreak, China has inspired some unfortunate comparisons with those earlier cases, when it was caught wrongly denying there was any problem, and then stonewalling requests for information from abroad. This time, international health officials have for months been wondering what to make of anecdotal reports of massive numbers of infected pigs. The price of live pigs has rocketed, up by 85% in July on the same month in 2006. Foreign agricultural officials based in Beijing accuse the government of a lack of transparency. “Information about this,” grumbles one, “has been flowing like cold molasses on a winter's day.”

Even so, China has been much prompter this time in seeking to allay concerns caused by the disease. Its chief veterinary officer, Jia Youling, called a press conference on August 20th to report that PRRS had been brought under “preliminary control”. The disease had infected 257,000 pigs in 26 provinces, of which 68,000 died and 175,000 were destroyed. But through a massive vaccination programme 100m pigs were already protected. “People are no longer scared of the disease because they know what the disease is and how to deal with it,” he said. This glides rather airily over the government's previous failure to acknowledge that people had ever been scared. He also admitted that some local officials had indeed covered up the disease in their jurisdictions.

According to Guo Fusheng, a technical adviser to the United Nations Food and Agriculture Organisation (FAO), China's response has been somewhat better than during the 2003 SARS outbreak. But it would be helpful, he said, if China shared tissue samples with international organisations. He felt optimistic that its officials soon would. Infected pigs have also been found in one other country, China's neighbour, Vietnam. The FAO and other foreign authorities also want more information about this vaccine that China claims to be using so successfully. Vaccines have hitherto not been known to be effective against the disease, which tends to mutate quickly. “It would be something of a breakthrough,” says Dr Guo, “so of course we would like to know more about it.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Kazakhstan's parliamentary election

Life without parole

Aug 23rd 2007 | ALMATY
From The Economist print edition

A post-Soviet model with something to teach even the Russians

Get article background

NURSULTAN NAZARBAYEV must be very gratified. After 18 years as Kazakhstan's president, and 16 of post-Soviet independence, he has managed to bend its political system enough to bring it full circle. Following parliamentary elections on August 18th, the country has become a one-party state once again. The authoritarian Mr Nazarbayev, who heads the winning Nur Otan ("Ray of Light-Fatherland") Party, is once more its undisputed leader, with an added bonus: the country is now a nominal democracy.

Nur Otan won all the contested 98 seats of the *Majilis*, the lower house of parliament, with 88% of the vote. None of the other six parties in the running, including Ak Zhol ("Bright Path") Party and the opposition All-National Social Democratic Party, managed to cross the 7% threshold needed to qualify for any seats at all. The opposition has cried foul and intends to file judicial complaints. But Kazakhstan is not famous for the rule of law, and, if the past is any guide, they will not get very far. The Social Democrats, who had expected from opinion polls to win around 20% of the vote, said they will apply to hold a rally at the end of August, but will not take to the streets without official permission.

According to the election-observer mission of the Organisation for Security and Co-operation in Europe (OSCE), a number of international standards were not met. The vote-counting was flawed in over 40% of polling stations the observers visited. But the elections "move Kazakhstan forward in its evolution towards a democratic country". This did not stop one OSCE official, Lubomir Kopaj, from adding that he had "never seen a democratic country with only one party in parliament". But Mr Nazarbayev crowed that the election had overall been approved as the first free and fair election in Kazakhstan's history.

The OSCE's assessment of the election, moved up by two years so that constitutional changes passed in May to strengthen parliament could go into effect, is vital in Kazakhstan's controversial bid for the organisation's rotating chairmanship in 2009. Although Kazakhstan is clearly not the ideal candidate for this role, Mr Nazarbayev craves the international recognition it would bestow. After intense lobbying among the other 55 OSCE member states, only the American and British governments stand in the way of a favourable decision expected in December.

Whatever the outcome, Kazakh-style democracy will be closely watched in neighbouring Central Asian republics. Even Russia may not be immune. The constitutional amendments also give Mr Nazarbayev, who is 67, the right to stand again as often as he likes after the end of his term in 2012. He could be president for life. In an interview with Russian television, Mr Nazarbayev has urged Russia's president, Vladimir Putin, due to step down next spring, to ignore what people abroad say and run for another term. A president should do what is best for his people and the state, he said. The chairman of Russia's election commission, Vladimir Churov, promptly replied in a Russian newspaper that "Nazarbayev is a politician of international standing whose words should be carefully considered."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bangladesh

Desperate measures

Aug 23rd 2007 | DELHI
From The Economist print edition

Reuters

The army-backed regime unravels; but there is nothing to replace it

Get article background

AFTER three days of violent clashes in Dhaka and other cities, Bangladesh's army-backed government imposed an indefinite curfew on August 22nd in six cities. It has shut down the mobile-phone network, and all educational institutions are closed until further notice. The violence erupted on the campus of Dhaka University and soon spread to most university towns. The spark was a seemingly petty incident on August 20th, when soldiers beat up several students protesting against the presence of the army at a football match on campus. The ensuing rioting forced the army to pull out of the campus.

By the middle of the week, the riots had left one person dead and hundreds injured. The students burnt effigies of the army chief, Moeen U Ahmed, and blocked transport links between Dhaka and the northern city of Rajshahi. They are calling for an end to emergency rule and a return to democracy.

Bangladesh has recently been battered by devastating floods. Rising prices are adding to ordinary people's woes. But the uprising is the most serious threat yet to the army and the civilian front it installed in January. The downfall of two previous military governments was triggered by student protests. This time there is nothing to replace the regime. The political parties and the country's democratic institutions are in a shambles. For its part, the government fears retribution by members of the former political class, most of whom are in jail. Lifting the emergency is a wholly unattractive option for the generals.

The curfew comes two weeks after a senior member of the interim government admitted that it would not be able to complete “its task” of preparing for fair elections until the end of the period it has allotted itself—by the end of 2008. But he said “structures” would be put in place to make its efforts irreversible. In practice, this means the formation of a National Security Council to entrench the army's political role.

The fear must be that the civil unrest, not yet joined by Bangladesh's gagged political parties, will embolden army hardliners. Meanwhile the presidency, the only civilian constitutional post left, at least on paper, will be vacated in two weeks, when the term of Iajuddin Ahmed runs out. It seems unlikely the job will go to a democrat.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Zimbabwe

Ripping the heart out of the heartlands

Aug 23rd 2007 | MASHONALAND
From The Economist print edition

Panos

Food becomes scarcer, even in Robert Mugabe's rural strongholds

THE meeting of the 14-member Southern African Development Community (SADC) in Zambia last week provided scant hope for the people of Zimbabwe. Few details emerged from behind the closed doors, but Zambia's President Levy Mwanawasa, who currently chairs the regional body and had previously compared Zimbabwe to a sinking *Titanic*, declared that problems in the neighbouring country were "exaggerated". With 80% unemployment, inflation that could now be over 10,000%, and severe shortages of the most basic goods, many Zimbabweans may disagree. Over 3m of them are thought to have left the country, and the UN refugee agency is working on contingency plans in case the exodus worsens.

Another UN agency, the World Food Programme, reckons that 4m Zimbabweans—about one-third of the population—will need food aid by the beginning of next year. The harvest of maize, the local staple food, was meagre this year. Rains have been poor, and the government's disastrous land-reform programme has turned once flourishing commercial farming into subsistence agriculture.

This is plain to see in rural Mashonaland, the area around the capital, Harare, and the traditional heartland of President Robert Mugabe's ruling ZANU-PF. Most of the land where tobacco and maize used to grow lies fallow, taken over by wild vegetation. A few hours' drive south of Harare, a commercial farm that used to grow maize and rear cattle has now been divided into 35 plots where subsistence farmers try to scrape a living. The irrigation system and the water pump that once turned the harsh terrain into fertile soil and provided drinking water broke down long ago. Only one of the 100 or so farm workers who used to work there remains. His small plot is dry, and he has to walk several kilometres to get water from a neighbouring farm. He reckons he has enough maize to feed his family until November. When his stock runs out, he'll be lucky to get one meal a day until the next harvest, in March or April.

A school was set up on the farm, and one of the teachers now lives in the main house, which was looted when the white owner was evicted. Even light switches have been ripped from the walls, not that they would be of much use now. There is electricity a few hours a day only, usually at night. The taps ran dry a long time ago.

The school is in a small building that used to house farm workers. Teachers and parents have joined forces to try to make it work. Benches are made up of old planks balanced on brick stacks, and makeshift tables have been built from scrap wood. None of the three tiny classrooms has any windows or doors left. School fees are 20,000 Zimbabwean dollars a term—or 11 American cents at the black-market exchange rate—but some parents cannot afford even that. The teacher says that a third of children in the area do not go to school at all.

Nearby, two of his pupils are staring up a tree, slingshots in hand. They are hunting a monkey, their only chance of eating meat. The youngest, wearing shorts that reveal his bony legs, says they manage two meals a day: tea and bread, when available, for breakfast, and maize porridge later in the day. His battered shoes are far too big and the laces are tied around his ankles to keep them from flying off. He lives 4km (2.5 miles) away and walks to school.

In another part of Mashonaland, a white commercial farmer tries to hang on, having lost the bulk of his farm to a senior government official and a few war veterans. He is one of the 350 or so commercial farmers thought to be left, from 4,500 before the government started redistributing land in 2000. A portrait of Mr Mugabe hangs on the office wall and he maintains good relations with local officials. The farmer points out that he is not fighting land redistribution itself. But some buildings (including his own house), valuable equipment and crops already planted have been taken over as well, so he is fighting that in court.

He has scaled back cash crops such as wheat and maize massively, and focuses on exports of citrus and tobacco, which bring much-needed foreign exchange. The next crops will need to be planted soon. Uncertain about the farm's future, he ponders over whether to make the investment. From 1,200 workers, he now employs only about 500. “We are going one way,” he says. “Down.”

The farm no longer makes money, but cheap government loans and heavily subsidised diesel help to keep him going. He also plants and harvests on neighbouring farms, which have been reallocated to black owners, and gets half the crop. Many new landowners find that reselling their subsidised diesel on the black market is far more lucrative than farming.

Presidential and parliamentary elections in Zimbabwe are scheduled for next March. The ruling party has been accused of leaning on traditional chiefs to control rural voters. Road-blocks in Mashonaland are frequent. In Chegutu, close to Mr Mugabe's home, shops are depressingly bare, and the struggling local factories and farms have laid off workers. But after years of intimidation, the opposition has almost disappeared. There is little visible security presence. Not so in Marondera, 45 minutes south-east of Harare, where the much-feared youth militia roam the streets and the atmosphere is tense.

Voter registration has just finished. The Zimbabwe Election Support Network, a local NGO, reports serious irregularities, with rural voters loyal to ZANU-PF registering in cities, presumably to dilute support for the opposition, strongest in urban areas. But Zimbabweans will no doubt be cheered to know that the SADC's leaders, at the end of their Lusaka summit, wished elections next year to be free and fair.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa

In the (beetroot) soup, again

Aug 23rd 2007 | JOHANNESBURG
From The Economist print edition

More allegations against the hapless health minister

AP

Let them chew garlic

Get article background

THE object of controversy just two weeks ago when her popular deputy was fired, Manto Tshabalala-Msimang, South Africa's health minister, is at the centre of another storm this week.

She has long been in trouble over her stance on HIV/AIDS, accused of not doing enough to speed up the roll-out of life-saving anti-retroviral drugs (ARVs) when about 1,000 South Africans are thought to die of AIDS every day. Worse, she has sown deadly confusion in the minds of many HIV sufferers by questioning the efficacy of ARVs and exaggerating their side-effects, instead promoting the curative benefits of beetroots, garlic and African potatoes. Activists and opposition parties have often demanded that she be sacked.

Now she has been accused of receiving a liver transplant because of a serious drink problem, and of continuing to drink since her transplant. The local *Sunday Times*, in possession of her confidential medical records, also alleges that hospital staff were forced to bring her booze during an earlier hospital stint for a shoulder operation. The newspaper maintains that she was convicted of stealing patients' jewellery and hospital supplies while working in Botswana in the 1970s, following which she was banned from the country for ten years.

The opposition Democratic Alliance questions whether the minister should have received a new liver at all. It has asked for an investigation over whether she jumped the transplant queue, and whether President Thabo Mbeki used his influence to help her do so. The doctors have denied the charge that she got any preferential treatment.

But despite all the furore Mrs Tshabalala-Msimang, whose husband is a senior official of the ruling African National Congress (ANC) party, is unlikely to go. She says the allegations are malicious and false, and has gone to court to get back her medical records, which have disappeared from the hospital's files. The ANC and Mr Mbeki are defending her, deploring what they call a gross breach of privacy. The party may not be hot on competence, or even probity. Loyalty, on the other hand, has long been highly prized.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Liberia

Keeping the country afloat

Aug 23rd 2007 | MONROVIA
From The Economist print edition

When a flag of convenience becomes absolutely essential

IN A smoky office on Bushrod Island, the ashtray on his desk brimming over with cigarette butts, a shipping agent explains why the tiny west African nation of Liberia has the world's second-largest fleet registered under its flag. “The rules change from country to country and they get laxer and laxer all the way down the chain until you reach Liberia,” he says.

Flags of convenience—or open registries, as some prefer to call them—are where you go to get a vessel registered as shipshape while avoiding high taxes, high labour costs and, critics say, too many questions. A ship need never even dock in the country under whose flag it sails. Cheaper labour in the developing world means that open registries are increasingly popular and Liberia's 2,511-strong fleet is the world's second-largest after Panama's (with 7,357 ships).

The associated registration fees and taxes are a vital foreign-exchange earner for Liberia: a large 30,000-tonne vessel can cost up to $13,225 to register and $11,500 a year thereafter to keep the flag flying. This makes the country's maritime registry a mainstay, alongside rubber, of its post-civil-war economy. Sanctions were only recently lifted on timber and diamonds and iron-ore production has yet to restart. Liberia expects revenues from shipping this year of $13m, or about 6.5% of the entire government budget.

This is an important source of income as Liberia struggles to rebuild itself under President Ellen Johnson-Sirleaf. Two decades of coup, counter-coup, conflict and mismanagement did not end until 2003, with the exile of the warlord president, Charles Taylor. He left the country desperately poor and is now on trial in The Hague for crimes against humanity. Meanwhile more than 80% of the country's 3.3m people are jobless, many of them young ex-fighters who hawk their goods on the crumbling streets that run between the mortar-punctured buildings of the capital, Monrovia. Two-thirds of Liberians live on less than a dollar a day.

As commodity prices fluctuate, the maritime registry is a rare source of regular income for the government. Yet many Liberians wonder why the country is not benefiting more from owning all those ships. A veteran politician, Senator Blamoh Nelson, complains that although the government of Liberia owns the registry, “it doesn't control it.” In fact control rests with the Liberian International Ship and Corporate Registry (LISCR), a Virginia-based company that has managed the shipping registry since 2000 and which takes a quarter of net profits for its troubles. The rest, say LISCR officials, goes to the government.

LISCR took over the registry when the previous agent was sacked by Mr Taylor. He wanted to plunder the registry, which had been established by the American government after the second world war. During the worst days of Liberia's civil war, when almost everything that could be was being stolen or destroyed, as much as 90% of government revenues came from the registry, an enticing prize for Mr Taylor. A UN report found that nearly $1m was siphoned from the registry to Middle Eastern bank accounts by Mr Taylor, used to pay off sanctions-busting arms dealers. However, the payments were stopped by the end of 2000.

Although Liberia's earnings from its fleet are up by $2m on last year, that is still less than the $18m that came from the registry in 2001. But back then few benefited, apart from Mr Taylor and his cronies. Now at least the cash stands a better chance of being spent on schools and hospitals rather than guns and patronage.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Congo and Uganda

Do you want to share or to fight?

Aug 23rd 2007 | KINSHASA
From The Economist print edition

The question posed by the oil find in Lake Albert

Get article background

TO SAY the least, Congo and Uganda have never been the best of neighbours. Congo's lawless east has long served as a safe haven for Ugandan rebel groups; it was in pursuit of those rebels that Uganda invaded its neighbour in 1998, precipitating a war which, after several other countries had piled in, cost the lives of perhaps 4m people. That ended in 2003, but nerves are on edge again after several recent incidents along their shared border.

At the end of July, Congo's army captured four Ugandan soldiers who it claimed had illegally strayed across the border that divides Lake Albert. On August 3rd an armed clash on the lake left a Congolese soldier and a British geologist dead. Six days later, a cross-border raid by suspected Rwandan Hutu rebels, based in eastern Congo since the 1994 Rwandan genocide, killed three Ugandan villagers.

This prompted not only an indignant protest from the Ugandan defence minister, Crispus Kiyonga, but also a build-up of troops along the border. The (admittedly easily excited) newspapers in Kampala, Uganda's capital, have talked of a possible invasion of Congo. But there is more to this sudden escalation of tension than historical animosity. “This is about oil,” says Congo's petroleum minister, Lambert Mende. “The stakes are enormous.”

In 2006 Canada's Heritage Oil made a find on the Ugandan side of Lake Albert. This at once turned the precise location of the watery border, and the exact ownership of a sliver of land called Rukwanzi Island, into issues of pressing national importance for both countries. The geologist who was killed on August 3rd worked for Heritage Oil. Although no one knows for sure how much oil is at stake, the Ugandan president, Yoweri Museveni, has already hailed the dawn of a bright new oil-fired future for his resource-starved nation.

Congo, seeking to rebuild after a ruinous war, also pins high hopes on oil and is allocating blocks for drilling on its side of the lake. The neighbours have agreed loosely to negotiate on the future joint management of reserves. But how much oil lies on which side of the border could have an impact on how any profits are divided. Hence those twitchy trigger-fingers.

In an effort to restore calm, Uganda's foreign minister, Sam Kutesa, paid an emergency visit to the

Congolese capital on August 13th during which it was agreed that a joint commission will begin the demarcation of the colonial-era boundary. Political and military officials from both countries have also promised that they will meet before the end of this month to ensure that tension on the lake does not result in armed conflict.

The two countries know they need each other if they are to benefit from the oil. Landlocked Uganda cannot afford instability on the lake if it is to attract the foreign investment needed to extract and export oil. As for Congo, its sole seaport sits at the opposite end of a country that is as big as western Europe but possesses almost no transport infrastructure. To ship out its oil it will almost certainly need the use of a pipeline through Uganda to the east coast. Though a history of bad blood will have its say, geography sometimes dictates.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel

Heading for the promised land

Aug 23rd 2007 | KADESH BARNEA
From The Economist print edition

A wave of Sudanese refugees may at last force Israel to enact an asylum law

THEY are the lucky ones. Avishai and Yolanda Pinchas brought some 50 homeless Sudanese to the large tent and wooden huts in their back yard at the Kadesh Barnea kibbutz. The Sudanese now enjoy a steady stream of donated food and clothes, including a shipment of new top-of-the-line sports shoes from one of Mr Pinchas's friends. Well-disposed doctors check up on them, and several student volunteers play with the children. At night they can hear the shooting as another group of refugees tries to cross the border a mile or two away.

Israel now has an estimated 1,200-1,300 Sudanese asylum-seekers, some 500 of them from war-torn Darfur. Most spent several years in Egypt, but even those officially granted asylum could rarely get work, and suffered slum living conditions and racist abuse (“chocolata, africaca [African shit], slave”, says one woman, recounting the epithets she used to hear). They began trickling across the porous border to Israel after Egyptian police killed at least 27 at a demonstration in Cairo in 2005. By spring of this year, the news that Israeli soldiers don't kill Sudanese and that people hand out Nike trainers for nothing had spread, hyped up by Bedouin smugglers who, like Mexico's *coyotes*, charge hundreds of dollars a head to deliver people across the wasteland of the Sinai desert. Hundreds more from other African countries are seeking asylum too.

Ordinary Israelis have been extraordinarily generous. The official response, by contrast, has been confused and chaotic.

The refugees have been passed around between the army, the police and local councils. Some were dumped on the streets; others, including women and children, have been put in jail, though the courts have begun ordering their release. This week the government deported 50 new arrivals without even letting them ask for asylum as the law requires. After years in Egypt, it argues, they are no longer refugees but economic migrants.

The trouble is that although Israel signed the 1951 UN convention on refugees, it has no asylum law of its own and only a rudimentary procedure. Unless they are Jewish, asylum-seekers have to turn to the UN High Commissioner for Refugees (UNHCR) in Israel, which recommends worthy cases to the government. The government usually accepts them, but since the UNHCR office is headed by a former Israeli diplomat and approves 1% or less of applications, immigrants' organisations hardly see it as impartial. In defiance of the UN convention, the government reserves the right to refuse people from enemy countries—of which Sudan is one.

However, the potential problems for Israel are huge. European countries limit refugees by insisting that they seek asylum in the first “safe” country they come to, which leaves the calmer African states inundated by their neighbours' refugees. Israel is easier to reach than Europe; along much of the Egyptian border there is no fence. If Israel deports even people who do not qualify for asylum, and they are subsequently mistreated, it could fall foul of international law, as Sweden did in a similar case two years ago. Israel says Egypt has promised not to harm any deportees or send them back to Sudan, but the message from Cairo is less clear. Several Israeli soldiers have told the press that they have seen Egyptian troops shoot and beat to death refugees trying to cross into Israel.

Over half of parliament has signed a petition against the deportations, and it will soon debate an asylum bill. The bill's current form has problems, says Yonatan Berman of the Hotline for Migrant Workers, not least because it gives refugees just 30 days after arrival to apply; most Western countries have no time limit. But it would at least start putting Israel's immigration policy in order.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Iran

Islamic Republic of Fear

Aug 23rd 2007
From The Economist print edition

Restoring the revolution, taking away civil liberties

AP

Iran makes a grotesque spectacle of itself

Get article background

THE head of Iran's judiciary is a confident man. Despite foreign attempts at slander, Ayatollah Mahmud Hashemi Shahrudi recently declared, his country has presented a fine image to the world of Islamic law at work.

If news were limited to such mercies as the recent release, on bail, of Haleh Esfandiari, a 67-year-old Iranian-American academic, after six months in jail on charges of espionage, or the amnesty granted to 4,000 other prisoners on the occasion of the birthday on August 20th of Imam Hussein, a revered Shia martyr, Mr Shahrudi's confidence might be justified. But these welcome developments come against a darkening backdrop, as the administration of President Mahmoud Ahmadinejad intensifies a campaign to reimpose the moral fervour, and xenophobic zeal, of the 1979 Islamic revolution's early years.

The rest of the world may be more concerned about Iran's nuclear ambitions. But for many Iranians, the issue that has begun to outweigh other troubles, such as poverty, unemployment and the danger of war with America, is human rights.

This is not surprising. Recent months have seen the largest crackdown on civil liberties since the 1980s. Purges of suspected liberals have decimated university faculties, and repeated closures have all but silenced the once-vociferous opposition press. Ms Esfandiari was the best-known of four Iranian-American scholars incarcerated earlier this year for alleged ties to American intelligence. Her colleagues remain in prison. But since the spring a wave of arrests has targeted everyone from women's-rights advocates to student leaders, trade unionists and critical journalists, packing the country's prisons so tight that police are commandeering other buildings as makeshift lock-ups.

Political activists are not the only ones at risk. Security officials boast that their campaign against “bad *hijab*”, which includes the warning, booking or detaining of women deemed insufficiently clad, but extends also to youths sporting “Western-style” haircuts, rock-music fans, shopkeepers selling indecent garments, and unmarried couples, has alone netted more than 500,000 offenders since April. And unlike previous dress-code enforcements, which tended to relax after a few weeks, this one appears to be growing stricter. Signs have appeared outside public hospitals declaring that only women wearing the head-to-floor *chador*, and not merely the headscarf, will be helped.

As much as the scale of the crackdown, its severity is raising eyebrows. Much of the police action has

been accompanied by complaints of brutality, and in many cases by documentary evidence such as graphic footage of beatings, posted on dissident websites. Despite prison crowding, punitive use of solitary confinement appears to have grown more common. The number of executions nearly doubled last year, to 177, bringing Iran the unsavoury distinction of being the world's heaviest user of capital punishment per head of population. This year has seen not only a further jump in the number of judicial killings but a return of mass public hangings, which are sometimes broadcast on state television.

Such harsher treatment, say rights activists, is partly a product of the paranoid atmosphere generated by a government that has deliberately associated any form of civil disobedience with alleged foreign plots. Recent remarks by the country's chief of police made this link explicit. Once they had dealt with “propagators of moral decay”, he said, his forces would turn their attention to those who “theorise on corruption”, such as critics whom he tied to foreign conspiracies aimed at a “soft overthrow” of the Islamic Republic.

The dissent within

But foreign spies and decadent liberals are not the regime's only critics. Mr Shahrudi, the chief judge, has himself voiced dismay over the government's policies. In July he condemned the stoning to death of a man accused of adultery, and sponsored this month's mass amnesty in what was seen as a sign of discomfort with police excess. He has also joined a broad range of former officials, economists, oil executives and businessmen in attacking Mr Ahmadinejad's erratically autocratic economic policies, which have included forcing banks to slash interest rates, splurging on costly infrastructure projects and replacing respected technocrats with cronies.

Many establishment figures agree that, rather than American bluster, it is these policies that endanger the country. To paraphrase Mr Shahrudi in a recent interview, if Iran wishes its revolution to be a model, a good start would be to get its economy in order. Another way might be to treat its people better.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Germany's trade unions

On their own track

Aug 23rd 2007 | BERLIN
From The Economist print edition

Getty Images

A possible train-drivers' strike threatens the end of union solidarity

Get article background

THE German Train Drivers' Union (GDL), the country's oldest, used to be among its most obscure. That changed in July when its feisty leader, Manfred Schell, rejected an agreement between Deutsche Bahn, the main railway company, and the bulk of its workforce. His members, he said, deserve a big rise in their "miserable pay"—up to 31%, the union has hinted. The threat of an economy-crippling strike, which could happen as early as August 28th, is shocking enough. Still more is GDL's challenge to Germany's tradition of trade-union solidarity.

Big unions are appalled by the prospect of some workers snatching better pay and conditions from weaker fellows. Employers accustomed to labour peace fret that Germany will face "English conditions" of rival unions competing by striking.

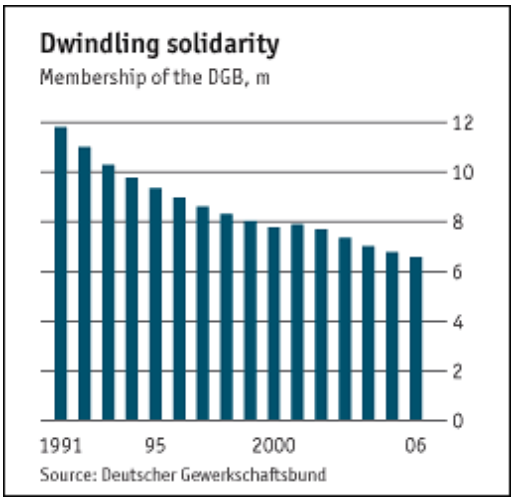
GDL is not the first to break ranks. In 1999 airline pilots pulled out from DAG, the white-collar employees' union, to fight for their own deals. Six years later doctors abandoned an alliance with ver.di, a grouping formed by the merger of five service-sector unions, to strike for a bigger pay rise than the behemoth could win for them. GDL's defection seems to confirm the unravelling of a system based on umbrella labour contracts for whole industries or firms. Companies complain that such contracts subvert competitiveness by imposing similar conditions regardless of size or strength. But they lose fewer work days to strikes than European rivals. Germany's prowess in manufacturing, rare for a rich country, may be due in part to the security such contracts provide.

Is that about to change? A separate deal for GDL would have "huge consequences for the next round" of labour negotiations, says Hans-Joachim Schabedoth, head of policy planning for the German Trade Union Confederation (DGB), the main union umbrella group. "Wage disputes will become harder to settle." Yet GDL's behaviour probably threatens workers more than employers. German employment is recovering after years of stagnation and some trades are starting to benefit. Even so, recovery will not restore unions' self-confidence or the relative equality among workers (in West Germany, at least) that prevailed before German unification in 1990. Instead, growing prosperity may be accompanied by a bitter quarrel over how to divide it.

Things have been going badly for the big trade unions ever since the fizzling in the mid-1990s of the unification boom. Growth slowed, unemployment soared and workers in newly capitalist eastern Europe stole German jobs. Since 1991 the DGB has lost 44% of its members (see chart). Employers exploited

unions' weakness by demanding opt-out clauses in labour contracts and sometimes dispensing with them altogether. Collective agreements now cover 65% of workers in western Germany, compared with 76% in 1998, says Reinhard Bispinck of the Hans-Böckler Foundation, the DGB's research arm.

Workers' flexibility made the recovery possible. Companies “drove up productivity tremendously by having docile and productive unions,” says Anke Hassel of the Hertie School of Governance, a private university. And now some are benefiting. Metal-bashing and electronics firms have added 85,000 jobs since employment hit bottom in April 2006. IG Metall, that industry's union, won a pay rise of over 4% for June 2007-October 2008. “Employees are no longer prepared to accept [hourly] wage increases much below the long-term average” of about 2¼%, says Eckart Tuchtfeld, an economist at Commerzbank. But high-productivity sectors, particularly manufacturing, will gain more than less-productive services. Global competition will continue to pressure wages overall. “The underlying situation will not change,” says Mr Tuchtfeld.



With little to go around, workers with the most disruptive power are tempted to grab what they can. Railway workers, who once enjoyed the cushy status of civil servants, have seen their incomes deteriorate as competition has been introduced into the industry and budgets tightened. An entry-level train driver makes just €2,000 ($2,700) a month, while the members of Deutsche Bahn's managing board secured a 60% pay increase last year. Now the company is set to be privatised with the co-operation of the two unions that settled for a 4½% pay rise starting in 2008. Mr Schell is not playing along.

That frightens unions such as ver.di, which represents more than 1,000 professions in the service sector, where big wage increases are difficult to come by. One response is to defy fragmentation with even broader alliances. Ver.di plans to team up for the first time with the Deutscher Beamtenbund, a union of civil servants, to negotiate a new public-sector contract this year. It is also wooing hard-to-organise workers, such as security guards in Hamburg, in beer cellars rather than union halls. “Traditionally, we helped workers only after they joined up,” says Harald Reutter of ver.di. “Now we talk, then we talk about membership.”

Under the constitution, unions and employers are autonomous and disputes have been resolved by the courts. But breakaway unions make it more difficult for courts to defend one union's right to negotiate on behalf of a company's entire workforce. The right to strike may now have to be regulated by law, Mr Schabedoth believes. Another statutory fix, championed especially by ver.di, is a proposed minimum wage of €7.50 an hour.

The sense of crisis may ebb if mediators appointed by GDL and Deutsche Bahn manage to avoid a separate contract for GDL's drivers. But that will not solve the underlying problem: the discovery, as Germany recovers from its slump, that some workers are more equal than others.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Italian politics

Is it a bird? Is it a plane?

Aug 23rd 2007 | ROME
From The Economist print edition

Silvio Berlusconi's latest political creation

INTO the summer torpor has burst a surprise. On August 21st Silvio Berlusconi's latest acolyte, Michela Brambilla, a successful businesswoman and ex-beauty queen, announced that, on the opposition leader's behalf, she had registered the name and symbols of a new “Freedom Party”.

Mr Berlusconi has long wanted this name for a unified movement of the centre-right. The pressure to create one is stronger than ever now that the two biggest centre-left parties are set to merge in October. But he said he had had the Freedom Party registered only to ensure that no one else did. And he denied reports that Ms Brambilla, the founder of a network of political clubs known as the Freedom Circles, would be its general secretary. This left observers wondering why a non-existent alliance should have added itself to the list of parties standing in a local election, in the Alpine resort of Courmayeur, in November.

Many believe the maverick billionaire is preparing his next outrageous trick: either to slough off his existing party, Forza Italia, and its middle-aged and generally unglamorous leadership, or arm himself with two separate movements, the newer of which would aim to woo the disillusioned younger voters Ms Brambilla claims to have drawn to her Freedom Circles. In the retail business—and Mr Berlusconi once ran a supermarket chain—this is known as “line-filling”.

Mr Berlusconi is doubtless also reacting to the mood of disenchantment with conventional politics that has swept the electorate in recent months. It could be discerned in a speech in May by the employers' leader, Luca Cordero di Montezemolo, which was seen as testing the water for a champion of Thatcherite reform (though Mr Montezemolo has since denied political ambitions). And, most spectacularly, it has helped turn a book of investigative journalism into this year's publishing sensation.

“La Casta” (“The Caste”), written by two journalists, Sergio Rizzo and Gian Antonio Stella, and published in May, is a dissection of the way tax revenue is frittered away by Italy's political class. The authors found regional governors spending 12 times more on hospitality than Germany's president. They discovered the mayor of a village with 91 inhabitants being paid as much as another in a city with 250,000.

“La Casta” has sold more than 600,000 copies. The “cost of politics” has become a buzz-phrase, and other journalists have begun looking at it hard. The latest issue of *L'Espresso*, a weekly magazine, reports the staggering cost of the Rome parliament, in which barbers can earn up to €133,000 ($179,276) and the price of members' haircuts is subsidised. Frustrated Italians are more than ready for new political groupings, though they may look askance at one with Mr Berlusconi's name on it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Greece's elections

Out of the ashes

Aug 23rd 2007 | ATHENS
From The Economist print edition

The prime minister seeks a renewed mandate

JUST as the weather is cooling in Greece, after a record heatwave that has brought devastating forest fires, politics has heated up again. Costas Karamanlis, the country's conservative prime minister, has announced an election on September 16th, six months ahead of schedule.

Mr Karamanlis says his New Democracy (ND) party needs a fresh mandate to tackle pension reform. Greece, which spends more on pensions than the European Union average, is under pressure from Brussels to overhaul its fragmented, inefficient system. Workers who receive generous payouts, such as bank employees, object to proposals for merging pension funds and raising the retirement age. It is 15 years since the last modest reform took place.

New Democracy's credibility on pensions has been undermined by a scandal over purchases of government bonds at inflated prices by pension-fund managers appointed by the social-welfare minister. More than 50 people, mostly officials at state pension funds, banks and brokerages, may face charges of fraud, money-laundering and tax evasion. Mr Karamanlis, who last campaigned on an anti-sleaze platform, has some explaining to do.

Modernising old-fashioned state universities is another priority. Greece is still short of courses in business, finance and IT, and Mr Karamanlis wants to amend the constitution to allow private non-profit universities to be set up. His first attempt collapsed earlier this year after three months of violent student protests. But grown-up voters are keen to end the state's monopoly on higher education.

The issue that will cost New Democracy most votes, say analysts, is the handling of the forest fires. One blaze on Parnes, a mountain outside Athens, raged for a week while emergency services struggled to co-ordinate their efforts, and firefighting aircraft were grounded because they had not been maintained.

But can George Papandreou, head of the Pan-Hellenic Socialist Movement (Pasok), exploit his opponents' weakness? Infighting is rife under his leadership. Mr Papandreou has given up trying to make Pasok more like a west European social democratic party. These days he sounds more like his populist father, Pasok's founder, Andreas Papandreou—whose style may not appeal nowadays to the centrist swing voters who decide Greek elections.

The small, far-right Laos party of George Karatzaferis, a former ND deputy and energetic member of the European Parliament, could pose a bigger threat to New Democracy's chances. Laos, which is strongly nationalistic, is likely to appeal to disaffected ND voters, especially in regions with high unemployment.

Mr Karamanlis is betting that a buoyant economy, growing at an annual rate of more than 4%, will win him another four-year term. The budget is at last under control; a new “social cohesion fund” is being launched to help poor families and the elderly; and, despite the fires, tourism has rebounded, with a record 16.5m visitors expected this year. The jobless rate, though still high among the young, is now around 6% for heads of households.

Greece's proportional election system favours the front-running party. According to most polls, New Democracy has led Pasok almost throughout its current term. Mr Karamanlis has kept a seven-to-ten-point lead over Mr Papandreou as the best choice for prime minister. Observers agree that Mr Karamanlis, a shrewd electoral tactician, will be hard to beat.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey and Iran

Too energetic a friendship

Aug 23rd 2007 | ANKARA
From The Economist print edition

An attempt to bypass Russia annoys the United States

Get article background

COCKING a snook at America seems an odd way to launch a second term in office for a government eager to prove its pro-Western credentials. Yet that is what Turkey's mildly Islamist Justice and Development party (AK) appears to be doing, just weeks after its landslide victory in the July 22nd parliamentary election.

Turkey's prime minister, Recep Tayyip Erdogan, dispatched his energy minister, Hilmi Guler, to Iran last week where he concluded a raft of deals. They include the establishment of a joint company to carry up to 35 billion cubic metres of Iranian natural gas via Turkey to Europe, and the construction of three thermal power plants by Turkish companies in Iran.

America swiftly complained. “If you ask our opinion, do we think it's the right moment to be making investments in the Iranian oil and gas sector, no we don't,” sniffed a State Department spokesman. There were mutterings about possible sanctions. But Turkey insists it has the right to pursue its interests. And Iran is delighted. “Nobody can come between Iran and Turkey,” Iran's president, Mahmoud Ahmadinejad, crowed recently.

Mr Erdogan's critics have seized on his dealings with Iran as proof that he is trying to steer Turkey away from the West. In fact, they have just the opposite aim: to boost Turkey's chances of joining the European Union by making it a vital energy corridor for oil and gas flowing between the energy-rich former Soviet states, the Middle East and Europe.

This is not as far-fetched as it sounds. EU countries import half their energy, with around a fifth of their oil and gas coming from Russia's state monopoly, Gazprom. The need to diversify sources was driven home in 2005 when Gazprom arbitrarily increased the price of gas it supplies to Ukraine by pipeline. Russia's use of its energy riches to flex its muscles on the world stage is one reason why America is lobbying so hard for the creation of an east-west energy corridor—a network of oil and gas pipelines running from former Soviet Central Asia and Azerbaijan via Turkey, and on to European markets.

The first big step towards weakening Russia's grip was the inauguration in 2005 of a multi-billion-dollar pipeline carrying Azerbaijani oil from offshore Caspian fields to the Turkish port of Ceyhan, in the southern Mediterranean. This provocation, from the Russian point of view, was compounded by the launch of a parallel line carrying natural gas from Azerbaijan (and eventually, Turkmenistan and Kazakhstan), which was completed last year. But Gazprom hit back by raising the price of the gas it sells to the Azerbaijanis, who rely on Russia for nearly half their supply.

This, in turn, forced them to use more of their own gas, leaving them unable to fill the Turkish pipeline, which lay idle until last month.

In a further blow, Gazprom announced a venture with Italy's Eni in June to build a line across the Black Sea from Russia to Bulgaria. All this makes it less likely that Turkey will, by 2011, achieve its dream of extending a recently completed pipeline to Greece as far as southern central Europe.

That is why Turkey has turned to Iran, according to Necdet Pamir, a veteran Turkish energy analyst. Iranian gas would not only help to fill the Nabucco pipeline, another mooted conduit from the Middle East or Central Asia, bypassing Russia, but would also reduce Turkey's own dependence on Russian supplies: over half of Turkey's natural-gas demand is met by Gazprom. Unlike the former Soviet producers, Iran controls several shipping lanes and borders Turkey. “The paradox for America is that Iran is the only country other than Iraq that can truly undermine Russia's [energy] supremacy,” observes Mr Pamir.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

School standards

Marking the teachers

Aug 23rd 2007
From The Economist print edition

Illustration by David Simonds

Nothing will really change in British education until the right people are persuaded to teach in the right schools

BETTER and brighter than ever? Or cheated by a dumbed-down exam system? Every August British teenagers achieve ever more stellar results: a fifth of all GCSEs (the test for 16-year-olds) and a quarter of all A-levels (taken by 18-year-olds) are now awarded the top grades.

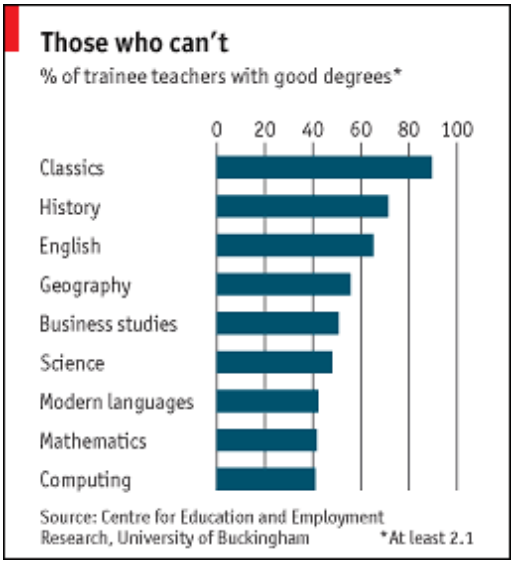
To some, this is yet another case of debased government figures. On August 16th the Liberal Democrats called for an independent inquiry into exam standards. In July Sir Peter Williams, who was recently appointed by the government to review primary mathematics teaching, said it was a "testable fact" that A-level maths and physics were getting easier.

The government, predictably, has a more upbeat explanation: "high quality teaching and strong investment", says Jim Knight, the minister for schools. It is certainly true that many more billions of pounds are being spent—on higher pay for teachers, more support staff and fancy new buildings. But attempts to judge whether this money has been put to good use tend to become circular, with rising exam results invoked as proof.

Mr Knight is right to focus on "high quality teaching". Research in America has identified the skill of teachers as the most important educational influence on how well children do at school. In July the government agency responsible for teacher training described the latest crop of trainees as "better qualified than ever", trumpeting that 58% held good degrees (a 2.1 or better), up from 51% seven years earlier.

"A bit of spin," says Alan Smithers, a professor of education at Buckingham University: this is simply the consequence of grade inflation in degrees, and there is still a worryingly wide variation between subjects (see chart). Worse, many lessons are taught by teachers with no relevant qualification. In 2002 (the most recent year for which figures are available) around a quarter of those teaching maths to 11-to-18 year-olds had not studied the subject beyond A-level themselves. Only half of the lessons were taught by someone with a maths degree. The situation is unlikely to have improved since then, despite higher pay and golden hellos for trainees in subjects where they are in short supply. Suitable graduates still have many other, more lucrative, options.

The national figures mask enormous local differences. Despite the shortage of well qualified teachers, some new trainees with good degrees still find it difficult to get a job. Much teacher training is done in universities in the north of England, where pupil numbers are falling, rather than in the south-east, where immigration keeps numbers up. Officials say that trainees should consider moving south in search of work—but a third of them are over 30 and so are likely to have families and mortgages, making this blithe suggestion difficult to follow.



As a result there are localised gluts. "In much of the country, schools can pick and choose between dozens of newly trained teachers—even in subjects like languages and mathematics," says John Howson, whose company, Education Data Surveys, monitors advertisements for teaching positions. His findings are borne out by the many sob stories posted on the website of the *Times Educational Supplement* by recent trainees who have failed to secure a single job interview.

The mismatch between supply and demand is rooted in an over-centralised pay and recruitment system. Each year the government tries to predict the demand for new teachers, looking at birth rates, migration and retirement from the profession. But such a centrally planned system is hard to get right, not least since the flow of new teachers is a trickle compared with the vast pool of those who qualified some time ago but are no longer teaching, although not yet retired. There are around 300,000 of these—ten times the number of new teachers qualifying each year and two-thirds as many as the total number currently working in state schools. Theoretically, any of these could decide at any time to return.

Moving to a more flexible system is an essential reform. It would, however, take time as well as political guts to push through. But one thing could be done straight away, says Mr Smithers: do more teacher training in schools rather than universities. Currently, only around a quarter of new teachers take this route. This would mean that newcomers to the profession would no longer be expected to abandon their families to find jobs. They would also be better prepared to work in the tough schools which need all the help they can get. As Mr Howson points out, "studying in cathedral cities is not terribly good training for teaching in the inner city."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

David Cameron's return

A flawed fight-back

Aug 23rd 2007
From The Economist print edition

The Tory leader tries to regain momentum but stumbles

David Cameron

ON AUGUST 22nd David Cameron, the Conservative Party leader, made a speech calling for a “three-dimensional” fight against youth crime, a hot topic in British politics. Efforts should be divided, he argued, between policing, the judicial system and the social causes of law-breaking. It was the most considered of his attempts to improve the Tories' standing in the polls since his return from holiday.

Not that there was much competition. Another campaign this week highlighting 29 hospitals that the Tories say are threatened with closure or downsizing caused confusion. The party wrongly included Altrincham General, instead of another hospital, on their list. A junior researcher apologised for the inclusion of the Princess Royal Hospital in Telford, only for this to be retracted by the Tories' health spokesman.

In general it is good that Mr Cameron is challenging the government on health care. After ten years and a vast increase in spending on the publicly funded NHS, Labour's record is patchy. However, a considerable chunk of expert opinion favours moving some health services away from the general hospitals the Conservatives seem so keen to defend. Mr Cameron could also have chosen a better target. A study published this week in the *Lancet Oncology*, a medical journal, showed that Britain still has some of the worst cancer-survival rates in Europe.

The Tory leader also looked less than assured when commenting on the case of Learco Chindamo, a former gang member whose minimum sentence for murdering a school headmaster in 1995 expires next April. Following a ruling by the asylum and immigration tribunal that Mr Chindamo cannot then be deported to Italy, where he was born and whose citizenship he holds, Mr Cameron repeated his pledge to scrap the Human Rights Act. This was a questionable remedy, both in terms of politics and policy.

The right to a family life guaranteed by Article 8 of the act was indeed interpreted in Mr Chindamo's favour (his mother and siblings are in Britain, where he has lived since he was six). Yet the act was a secondary factor in the tribunal's decision. More important was a directive in 2004 from the European Union (EU) on free movement, which prevents the deportation of EU citizens except on “imperative grounds of public security”.

Furthermore, Mr Cameron's new shrillness on crime—he talked on the radio about “anarchy in the UK”—may not help the rebranding of his party. The public favours a hard line on law and order, but they already assume the Conservatives will provide it. Without additional reasons to vote for them, such as fresh policies on public services, a focus on traditional Tory issues is likely to seem reactionary to the floating voter—witness the failed strategies of William Hague and Michael Howard, Conservative leaders at the 2001 and 2005 general elections respectively.

The Tories may yet recover their popularity, and Mr Cameron remains their best hope of doing so. But his shaky performance this week has hardly helped.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Scottish politics

Wendy's whirlwind

Aug 23rd 2007 | EDINBURGH
From The Economist print edition

The prime minister still faces troubles on his home turf

Gordon Brown

GORDON BROWN may have been cheered by the fresh woes of the Tory party this week, but the headaches in his Scottish backyard, where the prime minister is currently running the country from his Fife constituency, have not gone away. Since the Scottish National Party (SNP) beat Labour in May's Scottish elections and took office, Alex Salmond's fast pace as first minister has swelled his party's approval ratings.

This will not necessarily spell trouble for Mr Brown in a British general election. The lack of marginal Labour-SNP constituencies north of the border means that Labour's 40 Scottish seats in Westminster are not yet under serious threat. Even so, the Scottish elections showed that Labour's vote-gathering machine, long used to piling up big majorities with little effort, has rotted away.

On August 21st Mr Brown received some welcome news: the unopposed election of Wendy Alexander as leader of the Labour MSPs in the Scottish parliament. Unlike her predecessor, Jack McConnell, whose relations with Mr Brown were frosty, she, like her brother Douglas, Britain's overseas development secretary, is a protégé of Mr Brown.

Ms Alexander, a 44-year-old mother with young twins, must now try to restore Labour's fortunes north of the border. She is promising a thorough overhaul and a brand new organisation by next spring.

However, the snag for Mr Brown is that this is likely to cause tensions within the Scottish Labour Party. Ms Alexander leads the MSPs in Holyrood, but she has no authority over Westminster MPs. Those MPs who do not have cabinet jobs have become virtually invisible to Scots since devolution—and they may have different ideas about who should be calling the shots on party restructuring.

Furthermore, Mr Brown cannot rely upon the compliance of Ms Alexander. The nationalist victory has turned standing up to Britain's prime minister into a litmus test of Scottish political virility. So Ms Alexander says she is happy to look at how the parliament might gain more powers from Westminster, including more tax-raising authority.

This puts her at odds with the Labour high command. Des Browne, the defence and Scottish secretary, said this week he thought the present power split was fine. Asked how she would deal with her mentor, Ms Alexander smiled sweetly. “I would expect a good relationship of the kind that people expect from their politicians. But, will I be my own person? Yes,” she said. Mr Brown's brow may have furrowed when he heard that.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Commercial property

Dizzying heights

Aug 23rd 2007
From The Economist print edition

London's office prices are starting to decline

THE names of the streets that neatly divide Canary Wharf—West India Avenue, Heron Quays—point to the remarkable story of the rise and fall of London's docks, once the world's busiest, and their reinvention as a global financial centre. The towers that now soar above them provide more than a parable of capitalism's cycles of creation and destruction and the notorious booms and busts of London's commercial-property market, but may also carry a far older lesson: that the higher one climbs the farther one can fall.

For much of this year London's commercial-property market has been scaling new heights. In April HSBC, a British bank, sold its office tower in Canary Wharf to Metrovacesa, a Spanish firm, for £1.1 billion, the most ever for a British building. This topped the £690m that Citigroup's London office was worth when it was bought as part of a package by Royal Bank of Scotland in 2003. IPD, a data provider, reckons that office prices rose at an average rate of 10% a year during 2004 and 2005 before jumping 17% in 2006.

One reason for this surge in prices is that a shortage of office space has pushed rents to record levels. Hedge funds and investment banks have added thousands of employees, while developers, stung by previous busts, have been slow to build new space. One hedge fund is understood to have recently agreed to pay as much as £135 per square foot for swanky offices in St James's, making its new pad the priciest office in the world.

Deals such as these are for the very best offices. But even including humbler accommodation, London's West End still has the world's most expensive office space, according to Jones Lang LaSalle (JLL), a consultancy. Rents for swish offices in the West End have climbed 25% in the past 12 months to £1,200 ($2,400) per square metre. This is far higher than in any other financial and political centre. In Moscow rents run to about $1,500, JLL reckons; $1,400 in Hong Kong and $770 in midtown Manhattan.

But the boom is now ending. On August 16th Stephen Hester, the chief executive of British Land, said he expected a fall in office prices. His firm, the biggest landlord in the City of London, is now one of the capital's biggest sellers of property. CB Richard Ellis, a consultancy, has meanwhile warned its clients to expect the prices of offices, shops and factories to fall.

This is because investors have driven prices too high, too fast. IPD reckons that yields on commercial property have fallen from 6.8% at the end of 2001 to 4.5% by the end of June, which means that they are now 1.7 percentage points below the cost of borrowing (see chart).

Making matters worse is the turmoil in credit markets. This has not just driven up the cost of money, it has also made banks choosier about whom they lend to. Alastair Hughes of JLL says deals are taking longer to complete and some are falling apart as banks become more cautious.

Prices of the most expensive offices have not started falling yet, but those of shops and factories started to slip in July, according to IPD. Analysts at HSBC note that five of Britain's biggest institutional investors have reduced their property exposure since the start of the year, reversing a five-year flow of money into the sector.

Whether office prices will have a hard or soft landing is unclear. In the past investors in commercial property were somewhat insulated from market fluctuations because most tenants were locked into long-term leases. But this is no longer the case. Between 1995 and 2005 the average lease length declined

from 13 years to less than 5 years. If demand falters, then rents, and property values, may tumble as quickly as they have climbed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Drunken British youngsters

How to sober them up

Aug 23rd 2007
From The Economist print edition

Rather than raising the drinking age, put up taxes

THE trams that glide through Croydon by day are evocative of continental Europe. The loud and sometimes violent drunkenness among the young people who roam this south London suburb on a Saturday night is all too British, however.

That Britons tend to drink too much is nothing new—Shakespeare's Iago lauds a nation “most potent in potting”. But the debate about how to curb youthful drunkenness is gaining focus, in part because of recent reminders that the violence it produces can go beyond clumsy late-night scuffles. On August 17th three youths in Gateshead were convicted of beating a man into a month-long coma for refusing to buy alcohol for their underage friends. Peter Fahy, the chief constable of Cheshire, where a father of three was murdered on August 10th by youths, has suggested, among other things, raising the legal drinking age from 18 to 21 and banning alcohol consumption in public places.

These proposals sound plausible but they have drawbacks. Meg Hillier, a home office minister, dismissed the idea of raising the legal alcohol-buying age, noting that sensible drinkers between 18 and 21 would be penalised and that the current age limit is already being dodged. It would also put Britain out of line with international practice: the buying age is 18 in most of Europe, and as low as 16 in countries without much of a drink problem, such as Italy. In any case, binge-drinkers in their mid-twenties are also part of the problem.

As for banning drinking in public places, local authorities in Britain can already do this. Two particularly enthusiastic councils are Westminster in London and Brighton and Hove on the south coast, both of which have raucous night-time economies. Other councils apply the ban more selectively. As Ms Hillier points out, this flexibility is preferable to a blanket national ban.

An alternative to restrictive measures is to teach Britons more sensible drinking habits. After all, government campaigns and public-health advertisements played some role in the decline in smoking. But Ben Baumberg, a researcher at the Institute for Alcohol Studies, cautions against pinning too many hopes on this approach. By itself, he says, it will not revolutionise Britain's binge-drinking culture.

A surer solution is to raise the cost of alcohol by increasing taxes. Grant Thornton, an accountancy firm, points out that taxes on alcohol have fallen in real terms over the past decade, although they are still high by European standards. Intense competition between the pubs and bars in town centres has also pushed down prices. Drinkers stumble from one watering hole to the next in search of “happy hours” and other promotions. Supermarkets are also accused of selling alcoholic beverages as loss-leaders.

The government may be about to change course. Its previous strategy to counter excessive alcohol consumption was criticised for relying too heavily on voluntary action by the drinks industry. But ministers said in June that they would review the pricing and promotion of alcohol. Raising the cost of drinking is the best hope of making a Saturday night in Croydon more peaceful.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Olympics and charities

Grabbing for gold

Aug 23rd 2007
From The Economist print edition

Charities are bearing the brunt of rising costs but they will also gain

“I FEEL I have done my bit. I have remortgaged my flat twice. I have no savings. I have nothing.” Camila Batmanghelidjh, the founder of Kids Company, a youth charity, was in campaigning mode in an interview published on August 19th as she gave warning that without more reliable funding she would have to close. The main target of her appeal was the government, which is to announce changes to charities' funding in October. But partly to blame, she said, were London's forthcoming Olympic Games, five years away.

London's bid for the Olympics played up the benevolent legacy that they would leave in their wake. Yet charities increasingly feel that they may do more harm than good. The chief complaint is that a big dollop of Olympic money is coming from the national lottery's charitable fund. In March, when the government admitted that the public cost of the games had almost trebled, the contribution demanded from the fund spiralled from £410m to £1.1 billion. Its income has also been hit by a new “Olympic” lottery, three-quarters of whose sales are thought to cannibalise the ordinary lottery's market. Last month the National Audit Office, a spending watchdog, said charities would lose £1.7 billion of lottery cash to the Olympics in total.

Ms Batmanghelidjh has identified another problem. Some 40% of her donations come from businesses, with around 30 large companies—banks, law firms and the like—making up the bulk. Now, she reports, some are planning to divert money into sponsoring the games. Association with the Olympic rings and free seats in a company box are more appealing than helping a “small charity at the bottom of Peckham”, she fears.

Not so, say sponsors. Lloyds TSB and EDF, the two major partners of the London games so far, say their sponsorship money comes from their marketing budgets and will not affect their community work. The £50m or so asked of sponsors for the unrivalled advertising opportunity is beyond the charitable budget of most companies.

Things may be looking up. In June the government promised to refund some of the plundered lottery cash using profits from selling the Olympic site. And arts charities will benefit from the four-year “Cultural Olympiad” festival preceding the games. Robin Simpson of the Voluntary Arts Network, which represents some 50,000 brass bands, drama troupes and the like, expects some of the lost lottery money will be given back to them for this purpose. “We're trying hard not to be negative about the Olympics,” he says bravely.

What charities have lost in cash, they may gain in manpower. Some 70,000 volunteers will work at the games, and it is hoped they will keep up the voluntary habit after the closing ceremony. The 2000 Sydney Olympics saw a growth in volunteering for sporting causes—but also elsewhere. Money might be limited, but volunteering seems to be infectious.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Technology and the internet

Pathfinder kids

Aug 23rd 2007
From The Economist print edition

British children are showing what the new new things will be

AT FIRST glance, the annual survey of the communications market by Ofcom, Britain's telecoms regulator, makes comforting reading for traditional-media executives looking for their future customers. Not only are children spending more time consuming media than their older siblings did just a few years ago, but they are also consuming more types. Three-quarters of British 11-year-olds now have their own television set, video-games player and mobile phone.

But this is where the comfort stops, because kids are abandoning old and not-so-old media for the new. Whereas two years ago 59% of those aged 8 to 15 regularly watched videos, only 38% do now. Two years ago 61% regularly played video games compared with 53% today. Most are abandoning stand-alone media, such as DVDs, and turning instead to media such as the internet and in particular social-networking websites. The trend seems to accelerate as children move into their teenage years. Nearly two-thirds of children between the ages of 12 and 15 use the internet, compared with 41% of those aged 8 to 11.

“Children are going from being media agnostic to media junkies in a very short period of time, and the early teen years is when that is changing,” says James Thickett, director of research at Ofcom. Britain is leading trends, rather than following them, he adds. Strikingly, 7% of ten-year-olds have a webcam, so their experience of the online world is video-based rather than simply typing at a keyboard; among children aged 13 to 15, the number jumps to 15%. One reason is the proliferation of fast internet connections. Half of British households had broadband by the end of 2006, up from one in ten in late 2003.

This has perilous implications for traditional media such as television and radio, where advertising spending is falling. Online advertising revenue increased 47% last year. It now draws in almost half as much as television does and a quarter as much as print media. Yet there is some hope. Pay-television subscriptions increased last year, even though average time spent watching the box fell, suggesting that despite the many distractions, consumers are still willing to pay a premium to watch what they want. The trick traditional media can't afford to miss is to find a way to get today's kids to act like mom and pop.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

Carnival queen

Aug 23rd 2007
From The Economist print edition

A decade after her death, Princess Diana's legacy is not the one that might have been expected

Illustration by Steve O'Brien

IN 1712, aged two, Samuel Johnson was brought to London by his mother. Almost blind and ill with scrofula, he was taken to St James's Palace to be “touched” by Queen Anne. Rationalist though he was, Johnson always wore the “touch piece” bestowed on him by the queen, whom he later hazily recalled as “a lady in diamonds and a long black hood”.

The practice of “touching” the sick, with its potent associations of magic and semi-divinity, flourished among the medieval and renaissance kings, but seemed to have died out by the beginning of the 19th century. Yet it lived again, until almost the end of the 20th, in the shape of Princess Diana, albeit with the long black hood exchanged for a little black dress.

During her short, sad life, Diana was seen as a scandalously modern princess; after her sadder death, and as its tenth anniversary approaches next week, she has been enlisted as a posthumous poster girl for various progressive causes. “She wasn't seen as posh. She was one of the people,” argues *Time* magazine, hailing her as “the princess [who] transformed a nation”. She wasn't—and she didn't. Beyond her roles as fairy-tale princess and floundering, suffering divorcee, Diana's appeal rested in part on an ancient archetype: the monarch who walks among the people, working miracles, in her case among the lepers, AIDS patients and maimed children she unsqueamishly embraced. And just as her draw was in part atavistic, the legacy of her death has proved a surprisingly reactionary one.

Plus ça change

Primitive fears of mortality; obscure feelings of guilt; globalised media; a hot summer: all that, and a lot else besides, contributed to the hysteria of “Diana week”, between the crash in Paris and the surreal funeral. The precise chemistry is still unfathomable; like many great events, the maelstrom is remembered differently by different people. But at least one interpretation that seemed plausible during those strange days in London now looks conclusively wrong. At the time, glum monarchists and a few optimistic republicans thought they heard the rumble of tumbrils emanating from the volatile mob outside Buckingham Palace. Yet five years later, huge and loyal crowds turned out for the queen mother's funeral, and for the queen's Golden Jubilee. Ten years on, the Windsors' poll ratings are rosy; Prince Charles has married the once-reviled Camilla; no one talks much any more about the crown skipping over his head to land straight on his elder son's.

Instead of heralding a republic, that week is now often said to have saved the monarchy, by forcing it to emulate the mourned, modern princess. In fact, the royal family started to change before Diana became part of it: the queen had begun to “let in daylight upon the magic”, which the original Bagehot warned against, as early as a royal television documentary of 1969. With hindsight, the public seems to have lamented Diana as much because she was one of the royals as because she was estranged from them. At a distance, the masses look less insurrectionist than conservative—and were quickly salved when the queen walked amongst them. (Only a traditional people could have got quite so worked up about how high a flag flew over a palace.) Seeming to challenge the status quo, the moment ultimately reinforced it—and not only in respect of the monarchy.

As well as shaking up the throne, Diana's death has been regarded as the embodiment or spark of broader shifts in Britain's politics and personality. Because of her colour-blind taste in men and the diversity of the crowds, August 1997 has been seen as a milestone in the evolution of a multi-ethnic nation—mostly by people who hadn't noticed that Britain had already become one. In part because they coincided with the advent of Tony Blair's New Labour government, and the ejection of a Conservative one, the weeping and hugging in the Mall have been seen as evidence of a general longing to be part of something bigger: of a rejection of social atomisation, an embrace of compassion and communitarianism. Like the fervent hopes Mr Blair aroused, that longing, if it existed, seems to have faded.

Still more ambitiously, “Diana week” is extolled as the time when Britain's upper lip definitively relaxed. That notion overestimates both how stiff the lip was before—Britain was never quite the emotionally deformed place of lore—and how flaccid it has become since. Even now the British do not routinely ululate at funerals; subsequent and greater tragedies, such as the terrorist attacks of July 7th 2005, have elicited touchingly restrained responses. In so far as that weird week related to the country's emotional life, it was as a safety valve rather than a catalyst.

The exception to that rule involves the institution that once seemed most likely to be changed by Diana's death: the press. Reviled, like the Windsors, for their contribution to her fate, the media refrained from intruding in her two sons' lives—but only temporarily. Now grown up, sometimes sporting girlfriends and inadvisable fancy-dress costumes, they are considered fair game. The commercial and technological forces that made their mother a hyperstar have made celebrity yet more coveted, and privacy still less respected. But Britain's tabloid newspapers did draw another lesson from the post-Diana frenzy: the power and popularity they could muster by launching sentimental crusades, such as the recent one waged over the disappearance of a little girl in Portugal. The mood these crusades whip up, like that in London ten years ago, can feel emotionally coercive, even intimidating, to those who don't entirely share it.

Had she lived, Diana would eventually have become less beautiful, less interesting, perhaps less unhappy. By dying, she immortalised herself as the “queen of hearts”. But in truth she became a carnival queen: monarch of a temporary disorder that, when it passed, left the old order intact, or stronger.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Central Asia

Not quite the pact that was

Aug 23rd 2007 | ALMATY, BEIJING AND MOSCOW
From The Economist print edition

EPA

China, Russia and the countries sandwiched between them can stage a fine military show—but they are not about to merge into a new monolith

WHATEVER else it may be, a military exercise—especially if it involves many countries—is a form of public drama, designed as much to impress the world as to hone combat skills. And as action movies go, the one just staged on a Russian plain wasn't bad.

A breathless dispatch from the Chinese national news agency, Xinhua, captured the mood as forces from six countries (China, Russia and four Central Asian states) swooped on the specially built village of Pashino and gave hell to the bad guys. “On the paths [that] the fleeing terrorists must pass through, two armed helicopters descended and firmly stayed there. The...military emblems painted on their bodies glittered under the sun. Then the cabin doors opened, and the commandos of a Tajik airborne unit in dark camouflage uniforms, and commandos of a Chinese special task-force in light camouflage uniforms, sprang out rapidly...”

Very soon, Pashino, or what remained of it, was free once more. (The only real-life losers were the people of a nearby village who had hoped that six armies might pulverise their own ghastly shacks, and then rehouse them.) All in all, the plot was fairly easy to follow—but it was hard to work out the dividing line between fact and fiction.

Regardless of its other purposes, the exercise was obviously designed to tell the world that the six-country Shanghai Co-operation Organisation (SCO) is more than a talking-shop. Russian and Chinese generals insisted that the putative foe was a generic gang of “terrorists”, not a specific country. But in Russia there was much enthusiastic talk in the pro-government media about SCO's emergence as a counterweight to NATO. President Vladimir Putin said the analogy was not quite right, but he did not seem displeased by it.

Does the comparison hold? In narrow military terms, the ability to co-ordinate the movements of more than 6,000 troops, and a broad range of armour, across long distances was quite successfully proved: a feat comparable with a medium-sized drill by the Atlantic alliance, says Christopher Langton of the International Institute for Strategic Studies, a London-based think-tank.

But talk of a new set-piece confrontation between two military blocks that spend most of their time and energy planning to fight one another is wildly overdone. The SCO is not, in fact, a new version of the Warsaw Pact, which was a giant, closely integrated military structure with a single Soviet master. For one thing, the Eurasian body has two dominant members with overlapping but far from identical strategic aims. Nor are the Russian and Chinese armies, which remain suspicious of each other, going to merge. China's need for Russian arms may diminish as its defence industry grows. Compared with Russia, China seems a little less keen on militarising the SCO, and more queasy about Iran's role as an “observer” of the group. Whatever China's long-term geopolitical ambition may be, it certainly does not want to be dragged into a conflict with the United States by a gung-ho Russia.

Indeed, the individual aims of the leaders who gathered this month in Central Asia—first for a summit in Bishkek, and then to the Ural mountains for the war games—are much easier to discern than any common purposes. Mr Putin and President Hu Jintao of China were both playing to domestic galleries. Mr Hu's progress through Central Asia was portrayed by the Beijing media as though he were a statesman on an historic mission. Every time he inspected a guard or raised his binoculars, his achievements in “bringing about a harmonious region” were exuberantly lauded. To China hands, it seemed that Mr Hu was building up strength for the autumn's Communist Party congress, a five-yearly event, when hard decisions on policy and personnel need to be taken.

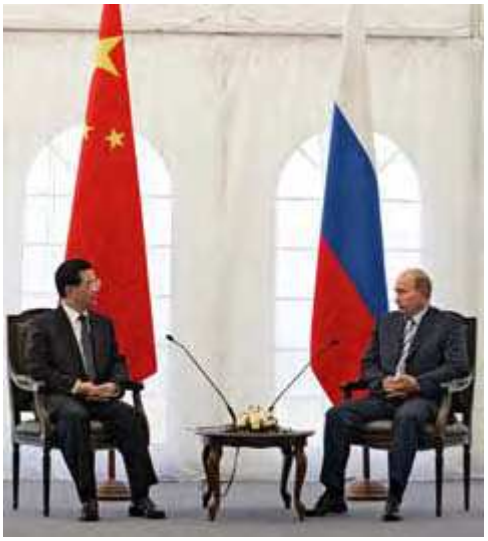
Mr Putin, too, was using Central Asian diplomacy to impress the folk back home: it was during the war games that he made a dramatic announcement that Russia was resuming strategic patrols by nuclear-armed long-range bombers. So the Russian public was simultaneously served up with images of high Eurasian strategy, with their president in the midst of it all, and the stirring message that, as one headline put it, “the Russians are flying” once more.

Aside from all the fanfare, Russia and China—and in varying degrees their Central Asian partners—do have some common concerns. All fear separatism and militant Islam; and in Moscow and Beijing at least, there is a keen sense that the Eurasian heartland should not be dominated by the United States. In 2005 an SCO summit declared that it wanted to see American and NATO bases withdrawn from Central Asia as soon as possible. The sharpness of that rhetoric owed something to the anger of Uzbekistan's rulers, who had just been rebuked by the West over the killing of unarmed protesters.

Two years on, resentment of American hegemony is alive and well, along with a sense that it may be on the wane anyway. But the Western presence in Central Asia has certainly not been exorcised. Though Uzbekistan ejected an American base in a fit of pique, it still hosts a German one, used to supply German troops in Afghanistan. In Tajikistan, the French use an airfield as part of the war against the Taliban.

AP

Strategic competition in Central Asia exists, but it does not consist of a straight confrontation between West and East. Instead, big countries jostle for a share of influence, knowing they cannot monopolise the scene; small and medium-sized powers struggle to keep room for manoeuvre by playing off would-be patrons.



Hu and Putin: to every man his gallery

Kazakhstan's President Nursultan Nazarbayev is a master of such manoeuvres. During the SCO summit, he flattered Mr Putin by virtually urging him to join the presidents-for-life club. But in matters of substance, Mr Nazarbayev has in recent days done more favours to China than to Russia. As soon as the thunder of war games died down, China's president went to Astana, Kazakhstan's new capital, and did some business. It was announced that an additional oil pipeline would be built from Kazakhstan to China; and that a new gas pipeline linking Turkmenistan with China would run through Kazakhstan.

What these deals brought home is that China, no less than America, wants energy corridors through Asia that bypass Russia. From China's viewpoint, the new deals were a nice counterpoint to the coup Mr Putin pulled off in May, when he unveiled plans to build a pipeline along the Caspian coast that would bring gas from Turkmenistan to Europe via Russia.

Nor will Kazakhstan let pan-Eurasian solidarity wreck its relationship with the United States. Mr Nazarbayev has agreed with Azerbaijan on an American-backed plan to bring energy across the Caspian Sea. At the same time, Kazakhstan remains a member of Partnership for Peace, a NATO-led military co-operation club—as does every other member of the SCO, save China, albeit with widely varying levels of enthusiasm.

For Eurasia's minnows, playing one big power against another is a bit harder. Take Kyrgyzstan, which hosted part of the summit. At the risk of irking its SCO partners, it has said it will keep open, for the foreseeable future, the American air base near its capital. But in the commercial arena, Chinese influence over Kyrgyzstan is massive. There is only so much leverage that a nation of 5m people can have when it confronts one of 1.3 billion. This helps explain why China, whatever the glamour of summitry and war games, prefers to do some kinds of business one-to-one.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nuclear safeguards

In pursuit of the undoable

Aug 23rd 2007
From The Economist print edition

Troubling flaws in the world's nuclear safeguards

Getty Images

A nuclear fuel pond: don't plunge

IF THE predictions of the nuclear industry prove correct, and concerns about carbon emissions and climate change drive more governments to start investing in nuclear power to keep the lights on, how will the world protect itself from the technology's inherent dangers? It is not just the risk of accidents that keeps people awake at night. Some materials and technologies used to generate electricity can, without a lot of extra effort, be abused for bomb-making. And with more and more nuclear material being processed and reprocessed—as mostly uranium-laden reactor fuel-rods turn into mostly plutonium-laden spent fuel—the possibilities for theft or diversion can only grow. A crude nuclear device, or a dirty bomb that spews radioactive debris about, is everyone's nightmare.

The scale of the potential problem is getting clearer: 31 countries already operate large nuclear-power reactors, and some of those will be adding more. Since 2005 at least 15 more governments have said they want one too.

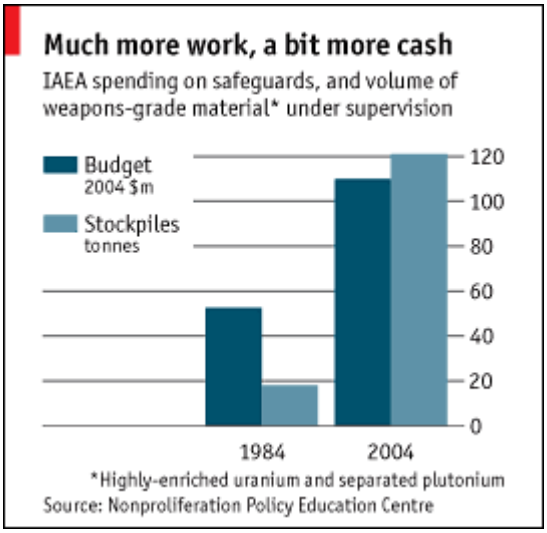
A whole clutch of these—Algeria, Egypt, Jordan, Libya, Morocco, Saudi Arabia, Tunisia, Turkey and Yemen—are in the fissile Middle East. Their plans seem to have been prompted in part by the discovery in 2003 of Iran's extensive, covert and hence suspicious nuclear activities. At one time or another in recent years officials from Egypt, Saudi Arabia and even Turkey, a member of NATO, have mused aloud about the possibility of a nuclear or “strategic” option. For some Muslim states, the spur to proliferate might be Israel, for others Iran. Algeria, for its part, has always been worryingly secretive about a nuclear research reactor discovered in 1991 and that it surrounds with air defences.

Not all the supposedly “civilian” nuclear plans now being laid will come to fruition. But some will. Meanwhile a detailed two-year study by the Nonproliferation Policy Education Centre (NPEC), a Washington-based think-tank, has uncovered troubling flaws in the internationally approved verification and monitoring procedures for safeguarding nuclear materials against diversion or theft.

In a new report, NPEC's director, Henry Sokolski, argues that UN nuclear inspectors from the International Atomic Energy Agency have too little money for the job they are asked to do. Not only that, but the yardsticks by which the IAEA measures its own safeguarding success are woefully out of date. Indeed, some of its supposed safeguarding, Mr Sokolski argues, is inherently undoable.

The money problem is easier to remedy. As the chart shows, the amount of potentially weapons-usable nuclear material—either highly enriched uranium or separated plutonium—under inspection has increased far faster than the funds available for safeguarding it. New methods and technologies have increased

the efficiency of inspections, but the IAEA's director-general, Mohamed ElBaradei, has long complained that his regular budget does not even cover all costs; it has to be topped up by less certain voluntary contributions, mostly from America. Among the few things America and Russia agree on now is that the IAEA needs more cash.



Without more money, Mr ElBaradei told his agency's 35-country board in June, safeguarding capacity will diminish. Last month he said he would ask a panel of experts to look at an internal review of safeguards-spending requirements—and then come up with some ideas about ways to meet them.

One improvement, suggests Mr Sokolski, would be to install more real-time remote-monitoring cameras, so inspectors can check more reliably that materials and equipment are not being diverted to covert use. According to the NPEC study, over the past six years the IAEA has learned of camera “blackouts” that lasted for more than 30 hours on 12 separate occasions. It found the gaps only after inspectors visited the sites and downloaded the camera recordings, as they do every 90 days.

That is more than enough time to divert nuclear material and make mischief with it. The IAEA assesses these things using a measure of militarily “significant quantity”: the amount of highly enriched uranium (25kg) or separated plutonium (8kg) it would take to make a weapon. But these quantities were arrived at 30 years ago. The NPEC study finds them too high by between 25% and 800%, depending on the type of weapon and yield required. What is more, in each case what the IAEA considers timely detection of such diverted quantities exceeds the time needed to process the materials for weapons use.

The search for MUF

All the more important, then, to keep a close eye on plants that produce quantities of such dangerous materials—especially where uranium is enriched and plutonium is extracted from spent fuel. But NPEC's conclusion is that proper verification here is impossible. At best, the report says, the IAEA can improve its monitoring techniques (those more capable cameras would help).

That is because of the volume of material involved and the way the plants work. Material unaccounted for (called MUF) is often stuck in piping. Discrepancies, even at the best-run plants, can amount to many bombs' worth. And it can take months for inspectors to be confident they have it all more or less accounted for. Imagine the problems if the IAEA is attempting to monitor such plants in a country like Iran, with its past record of lying to inspectors.

Mr ElBaradei and others have suggested multinational fuel centres as a way to avoid dangerous technologies being abused by individual governments. But safeguarding those would be no easier. Better that such fuel-making technology isn't spread around at all.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Plymouth Rock

Aug 23rd 2007
From The Economist print edition

An article ("The Maladies of Affluence", August 11th) wrongly called Plymouth Rock the first permanent European settlement in North America. Apologies to the inhabitants of Mexico City (Cortés arrived 1519); St Augustine, Florida (1565); St John's, Newfoundland (1605), and anyone else with a prior claim.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Behold, telepresence

Far away yet strangely personal

Aug 23rd 2007 | SAN FRANCISCO
From The Economist print edition

The despised business of videoconferencing is about to get a new lease on life

FOR most of the 23 years Kenneth Crangle has spent at Hewlett-Packard, a big computer and printer company, he was a typical road warrior, constantly travelling for business. He was usually miserable. He hated the jet lag. Then came 9/11, shoe bombers, SARS and bird flu. His daughter became sick, exacerbating his reluctance to travel. There must be a better way to meet and do business, Mr Crangle recalls thinking. So he started work on an alternative.

The result is something called “telepresence”, which HP and other technology firms are just beginning to sell. It is basically a spruced-up version of videoconferencing, but its creators insist that the technology is so improved as to be unrecognisable. Users still communicate via live audio and video feeds, but the speed and quality of transmission have increased, and the screens have grown and multiplied, in order to create the illusion that the two parties to a conversation are not continents apart but at opposite ends of the same table (as in the picture above). The aim, telepresence's boosters say, is to get participants in such meetings to forget, or at least stop caring, that they are not in the same room.

Videoconferencing was supposed to put an end to corporate travel. But positioning people in front of a camera, fiddling endlessly with controls and then either giving up or proceeding to stare at a tiny picture of a blurry face often seems less satisfactory than the humble telephone. Such “conversations” are often a sequence of time-delayed interruptions and missed social signals. Just as the technologies that were supposed to deliver “the paperless office” actually deluged it in print-outs, videoconferencing sometimes works so badly that it leaves users feeling alienated, and so keener to meet face-to-face than they had been in the first place, say Andrew Davis and Ira Weinstein at Wainhouse Research, a consultancy.

Correcting these flaws has been difficult. Designers want people in telepresence meetings to appear life-sized, and the tables and rooms at the two ends to blend together seamlessly. (Rooms, furniture and even wallpaper are often identical, to aid the illusion.) People must also feel that they are making eye contact, which involves multiple cameras and enormous computing power. The delays in sight and sound must be negligible (ie, below 250 milliseconds, the threshold at which the human brain starts to notice), so that people can interrupt each other naturally. Sound must be perceived to come from the direction of the person speaking. And getting things started must be simple—ideally involving a single button or none at all.

Several firms have started selling such systems over the past 18 months. HP was the first big vendor, followed by Cisco, which makes many of the innards of the internet. The two leaders in old-fashioned videoconferencing, Polycom and Tandberg, are switching to telepresence. Smaller firms, such as Teliris and Telanetix, are also getting in on the act.

HP charges $350,000 for every room it kits out for telepresence and, in America, a further $18,000 a month for service. Cisco charges up to $299,000 per room. Dominic Dodd, of Frost & Sullivan, a research firm, says that buyers of such systems find that despite their high cost they quickly pay for themselves by keeping travel bills down. Cisco claims that it has cut its own spending on travel by a fifth this year, and that the 100-odd telepresence rooms at its own offices around the world are almost constantly in use.

In addition to saving money, Cisco argues that telepresence saves time. The firm recently completed a takeover in eight days (as opposed to the usual weeks or months) by putting the lawyers in telepresence rooms instead of on aeroplanes. Lee Scott, the boss of Wal-Mart, the world's biggest retailer, is said to see great scope for improving his supply chain. DreamWorks, a Hollywood studio that helped HP develop its telepresence system, says the technology will help it make movies cheaper and faster, by allowing creative types to collaborate without travelling.

There are environmental benefits too: according to HP, eliminating one round-trip journey between New York and London saves 3,000lb (1,361kg) of carbon dioxide—roughly as much as 90 cars emit in a day. Telepresence meetings between farther-flung destinations, or involving more people, would result in even bigger environmental savings.

Marthin De Beer, the head of new technologies at Cisco, says that potential customers think all this sounds too good to be true, but are converted by demonstrations. At any rate, Cisco says it has persuaded 52 firms to sign up, for an average of five rooms each. Frost & Sullivan forecasts that the global market for telepresence, although still tiny, will grow by 56% a year to reach $1.24 billion by 2013.

There are grounds for scepticism. HP claims that Cisco sells its telepresence rooms at a loss, in order to win the accompanying contracts to upgrade firms' internet connections to handle all the extra data involved. For that reason and others, many analysts question Cisco's rosy sales projections. Moreover, there are plenty of aspects of business travel that telepresence cannot replace: factory tours, a night out with clients, a side-trip with the family. On the other hand, it needs to supplant only a tiny proportion of trips to become a big business.

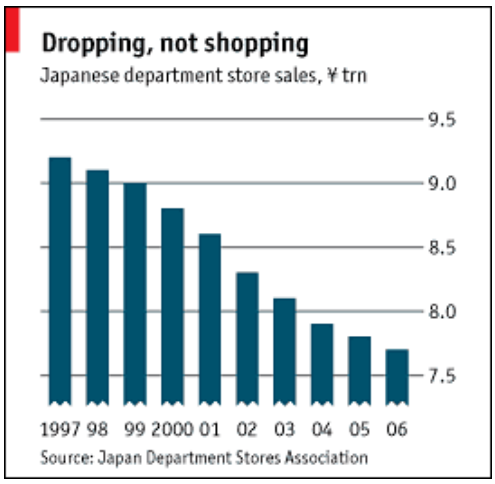
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese department stores

Demise of the depato

Aug 23rd 2007 | TOKYO
From The Economist print edition

Consolidation beckons for Japan's retail icons



ONCE, Japan's department stores were symbols of modernity. In 1673 Mitsukoshi, the oldest, introduced the then-radical innovation of fixed prices. At the turn of the last century, its flagship store was the first building in Japan to have central heating and escalators, and one of the first big shops in the country to allow customers to wear shoes.

Nowadays, however, *depato*, as department stores are known in Japanese, seem stodgy. Customers are deserting them in favour of speciality clothing stores and malls. Moreover, consumer spending is flat and the population is declining. Sales have fallen across the industry for a decade, and profits with them. Goldman Sachs, an investment bank, expects them to fall further this year. Because productivity is low and operating costs are high, earnings are meagre. Mitsukoshi, for one, has posted losses for six consecutive years. The value of the land on which its stores sit is now thought to be higher than that of the company itself.

No wonder, then, that the boards of Mitsukoshi and Isetan, the country's fourth- and fifth-largest department-store chains, laid plans for a merger this week that would create the country's biggest retail group, with $14 billion in annual sales. The deal is seen as a way for Mitsukoshi to learn new tricks from Isetan, which is far smaller but profitable. Their rivals are doing the same: Matsuzakaya and Daimaru, two more department-store chains, are to combine as J. Front Retailing, which will be the second-largest retailer after the Mitsukoshi-Isetan tie-up. In October Hankyu and Hanshin will join forces as H2O Retailing. In 2003 Seibu and Sogo merged to create Millennium Retailing.

Combining forces is a way for stores to increase their buying clout with distributors. It can also help to promote broader restructuring. Branches are often run almost autonomously, so a merger serves as a convenient excuse to centralise. Innovative practices from the better-performing stores can be rolled out across the business, explains David Marra of A.T. Kearney, a consultancy.

Many big chains have shed permanent staff in recent years and resorted to temporary workers, who cost less since they receive fewer benefits. But stores are still packed with too many employees serving too few shoppers. Department stores have the lowest productivity in the Japanese retailing sector after mom-and-pop outfits, and are around 25% less efficient than their counterparts in America.

The adoption of clever information-technology systems to improve logistics and streamline purchasing has been particularly sluggish, despite corporate Japan's reputation for technological prowess. By contrast, it is mainly the rapid embrace of new technology that accounts for American retailers' greater efficiency.

To catch up, Japanese department stores need to invest in IT, reorganise their operations and renovate their ageing buildings, says Kentaro Mori of the Boston Consulting Group. This costs money—something they are short of. So the mergers are a way to attain larger scale and thus make these investments more affordable.

The *depato* helped to spread Western-style, middle-class consumerism in Japan. Family visits at the weekend were as much cultural excursions as shopping expeditions: there were art galleries, restaurants serving foreign food and shelves stocked with exotic products from around the globe. But unless a radical overhaul accompanies the current consolidation, the *depato* themselves will soon become curiosities.

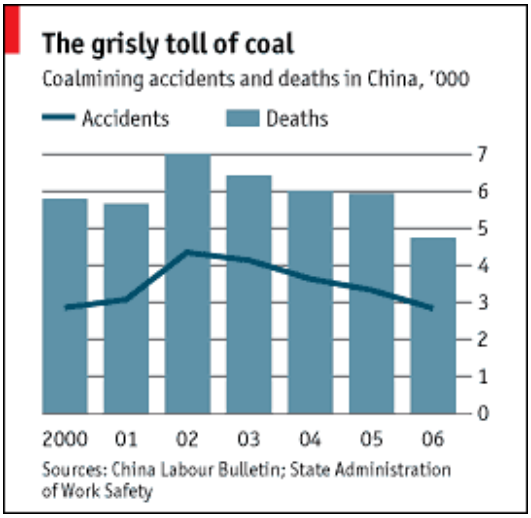
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China's coal mines

Bottoming out

Aug 23rd 2007 | HONG KONG
From The Economist print edition

China's coal mines, although deadly for many, are getting less dangerous



EARLIER this month the Chinese authorities held a conference in which they celebrated the miraculous rescue of 69 coalminers who were presumed lost in a flood. This week the officials were more reticent about their failure to rescue 181 others from two flooded mines near the small town of Xintai, midway between Shanghai and Beijing. Official statistics suggest that since the Communist party took control in 1949, 250,000 people have died in China's mines; this year alone more than 2,000 have perished. Despite this gruesome toll, however, the safety record of the Chinese coal industry seems to be slowly improving (see chart).

The most recent accident was typically grim. On August 17th a river broke its banks and inundated two mines. More than 500 people scrambled to safety; the rest were washed down shafts as deep as 900 metres (3,000 feet). The rescue effort was certainly slow and possibly botched. Days after the incident, the river bank had yet to be repaired and critical pumps had not arrived. Relatives of the victims struggled to find out what was going on.

Coal provides more than 70% of China's energy, and no alternative is equally cheap and accessible. Most of it is dug up by big firms under long-term contracts, but the price of coal on the open market has risen high enough in recent years to provide abundant incentive for marginal production—and marginal producers. Many mines, including one of the two flooded this week, have no licence to operate. Other firms do not have formal rights to the coal they mine, points out Jianjun Tu, a Canadian energy consultant, and so little incentive to invest in sound engineering or equipment. Production typically comes from deep pits, which are easier to establish but far more dangerous, and ultimately less efficient, than opencast mines. Local officials turn a blind eye either because they believe their regions need abundant coal to spur economic growth, or because they have been bribed.

The government says that these small mines account for roughly a third of production, but two-thirds of deaths. In mid-2005 it embarked on a tough and often unpopular campaign to close down unsafe ones, and claims it will have shut 10,000 of them by the end of the year. Local officials face ever more severe penalties (including execution) for looking the other way. Moreover, there is a growing realisation that licensed, professionally run companies are not only safer, but more efficient and easier to tax, says Thomas Wrigglesworth, head of mining research at Citigroup. China's energy demands are now so large that only companies that can raise enough capital to build massive facilities can hope to meet its needs. Commercial loans or stockmarket listings, in turn, bring more scrutiny and transparency.

One Chinese company, Shenhua Energy, already has a market valuation of $63 billion and may soon become the largest and most valuable coal producer in the world. Shendong Coal, one of its subsidiaries, has fewer fatalities relative to production than the average American mine, although the same is not true of all Shenhua's units. As such firms grow at the expense of shadier operators, the human toll is falling dramatically: in the 1950s an average of 70,000 people died each year in coal mines, compared with 40,000 in the 1980s, 10,000 in the 1990s and roughly 6,000 since 2000, says Mr Tu. But that is no consolation to this week's victims.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

America's funeral homes

Profiting from loss

Aug 23rd 2007 | WINSTON-SALEM, NORTH CAROLINA
From The Economist print edition

Will corporations ever dominate the "death-care" business?

IN THE first episode of "Six Feet Under", a popular American television show aired earlier this decade, a large corporation tries to buy a family-owned funeral home (even making overtures at the patriarch's own burial). The owners of Salem Funerals & Cremations, based in Winston-Salem, can relate to that. In 1991 Service Corporation International (SCI), the largest funeral chain in America, bought their formerly family-owned business, one of the oldest in America. But last year they broke free from SCI and started Salem, which is now using low prices and simple services to wrest market share from their cross-town corporate rival.

Thus continues the unending tug-of-war between corporate and family-owned funeral homes in America. It is a strange industry: more than 85% of funeral homes are still owned by families or independent firms (similar perhaps to dry-cleaning shops but not much else). Just 3,000 of 22,000 funeral homes are owned by big corporations, estimates George Clarke, executive director of an association of independent funeral homes. Houston-based SCI is the biggest of the corporates, claiming a 14% share of revenues from "death care", as they tactfully call their business.

Public death-care companies are not exactly in rude health themselves. SCI's share price, despite nearly doubling in the past year, stands at less than one-third of its level in the late 1990s; its biggest rival, Stewart Enterprises, is just over $7, down from $28 at its peak in 1998. The trouble was a wave of consolidation during the 1980s and 1990s. Funeral-home companies thought they could grow by acquisition and cut costs through consolidation. But they overpaid amid a scramble to buy independent funeral homes, and found that they could not wring big savings out of them.

Death, although recession-proof, is not a growth business (even though baby boomers are getting on), so SCI is trying to increase its margins. In recent years it has adopted a new strategy, cutting prices for caskets and urns but concentrating on selling bundles of services, says David Hass, a managing director. In 2005-06, average revenues per funeral service at SCI rose by an impressive 9% (or $394 per service), whereas the number of funeral services performed fell by 5.8%.

SCI has also gone for branding. Its chain of "Dignity Memorial" funeral homes offers such services as a "24-hour compassion helpline" and advice on securing bereavement fares from airlines. The company says the brand is doing well; it is rolling out a Hispanic version, Funeraria del Angel, targeted at Latinos, complete with bilingual staff and the option of 24-hour viewing of the deceased.

Independents say that the corporates' prices are too high, and that their service is too impersonal for such a delicate business. "Everything is bottom-line oriented," complains Jim Weeks, who recently bought back the funeral home once owned by his family in Savannah, Georgia, from SCI.

Whatever the price, both corporates and independents will be troubled by the growing popularity of cremations. These are much less costly than burials. Richard Puryear of Salem Funerals and Cremations estimates that a typical burial costs $6,400, whereas cremations average at best $2,800. In 2005 about 32% of funerals in America were cremations, up from 26% in 2000, according to the Cremation Association of North America. It expects the number to rise to 46% by 2025.

SCI is responding by withdrawing from the cheapest cremations and going for more lucrative packages. Already 41% of its business comes from cremations (above the national average because its business is concentrated along the coast, where cremations are especially popular). "We expect it could be 50% in the next five to ten years," if not higher, says Mr Hass.

Family operators face an extra hurdle. It is hard to persuade young people to get involved in the business, which is not just gloomy but also gruelling: undertakers are on call 24 hours a day, seven days a week. Most of the staff of independent funeral homes are 45 or older, says Mr Puryear. So death could yet be

their undoing.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Corporate chaplains

Praying for gain

Aug 23rd 2007 | WASHINGTON, D.C.
From The Economist print edition

A fad for piety infiltrates the realm of Mammon

DOES your job seem pointless? Are problems at home draining your zest for work? Is your boss a blithering idiot? Then why not consult the company chaplain?

Corporate chaplains are a booming business in America. There are roughly 4,000 of them (precise numbers are hard to come by) working everywhere from giant multinationals to tiny family firms. And their numbers are growing. America has several thriving rent-a-chaplain companies, and two seminaries that offer degrees in corporate chaplaincy, yet demand still exceeds supply.

Some companies prefer to rely on in-house chaplains. Tyson Foods, a meat-processing giant, employs 128 chaplains to minister to 85,000 employees in the United States, Mexico and Canada. John Tyson, the company's boss, also employs an ordained minister as an executive coach to help him wrestle with ethical questions.

But most firms outsource their spiritual guidance. That makes it easier, of course, to get rid of surplus chaplains in a downturn. But it is also arguably better for the workers who seek their counsel, in that the chaplains work for a third party rather than the boss.

Marketplace Chaplains USA, based in Dallas, Texas, is America's biggest provider of corporate chaplains, employing 2,100 of them at 300 companies in 46 states. The company was founded in 1984 but has enjoyed its most rapid growth over the past six years: it has doubled in size since 2001 and is currently adding a new client every seven days. Its customers range from banks to construction companies to Tyson's main rival, Pilgrim's Pride.

Corporate Chaplains of America, which is based in Wake Forest, North Carolina, is both newer and smaller: it was founded in 1996 and has 100 full-time chaplains on its books who minister to 75,000 workers in 24 states. But it is also booming. Dwayne Reece, a spokesman, says that the firm would like to have 1,000 chaplains ministering to 1m workers in six or seven years' time. Both companies talk excitedly about going global. Marketplace Chaplains expanded into Mexico and Puerto Rico this year, and has high hopes for the British market. Corporate Chaplains has a client who wants it to expand into China.

Why the chaplain boom? People in the business point to the practical advantages of having a company cleric. Many workers are cut off from their geographic and religious roots. Corporate chaplains can perform the role of traditional village priests. People in the business also argue that corporate chaplains can boost productivity. Art Stricklin, of Marketplace Chaplains, claims that the turnover rate at Taco Bell outlets in central Texas dropped by a third after they started employing chaplains. More objective evidence is hard to find, but it is notable that companies have taken to advertising the fact that they employ chaplains in promotional literature.

Another reason is the growing intrusion of faith into the workplace. Once-closeted bosses are coming out as evangelicals (see article). Bible-study classes are proliferating across corporate America. Texas Instruments offers “serenity rooms” where employees can go to pray and meditate. Lawsuits from outraged secular employees are probably only a matter of time.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Dutch telecoms

Small but nimble

Aug 23rd 2007
From The Economist print edition

KPN has decided that the best acquisition is its own stock

THE ground is shifting beneath Europe's telecom companies and the past few weeks have produced more tremors. As the internet continues to blur the distinction between television, telephones and IT, once unassailable incumbents are struggling to cope with the increased competition. Some are trying to buy growth beyond their borders. On August 20th, for instance, Deutsche Telekom's T-Mobile got approval from the European Union to buy the Dutch subsidiary of Orange, itself a subsidiary of France Telecom. Most smaller telecoms firms assume they must grow or be gobbled up. But one has announced moves that reflect a different strategy: to be nimble rather than big.

Six years ago, KPN, the former Dutch monopoly, was teetering on the brink of bankruptcy after paying too much for acquisitions and for licences to provide so-called 3G services, which involve greater bandwidth and thus fancier features. Ad Scheepbouwer was drafted in from the Dutch postal service (now part of TNT) to rescue the firm, just 12 years after it had been privatised. He took the job only after KPN's bank agreed to provide emergency loans to give him breathing space.

Mr Scheepbouwer brought in a new marketing approach, offering different packages aimed at specific groups, such as teenagers and immigrants. (He has since been widely copied.) He also axed thousands of jobs, sold off marginal businesses and tried to prepare the firm for the internet-telephony revolution. “We had to reinvent ourselves,” says Mr Scheepbouwer, “even if it meant cannibalising some of our businesses.”

Today the company's revenues of around €12 billion ($16.2 billion) are achieved with 26,000 workers—half the number for a similar turnover in 2001. The old fixed-line network is being torn up and replaced with a system using only internet-protocol (IP) technology, which is cheaper and better at handling voice, data and images. KPN has replaced 1,300 telephone exchanges with just 100 IP centres, and raised €1 billion by selling property as it did so.

At the end of July KPN announced that it was buying Getronics, a leading Dutch IT-service company judged to have great potential despite weak recent earnings. But KPN's shares have lagged its peers' in recent months despite its bold advance into the world of IP.

In particular, investors appeared to fear that KPN would bid for Bouygues, a big French mobile operator that could be coming up for grabs. Mr Scheepbouwer had said earlier this year he would be interested were the French company put up for sale, but recently made it clear that there would be no bid soon. Instead he announced that KPN was speeding up its plan to spend €1 billion on the purchase of its own shares, taking advantage of their depressed level. In today's volatile markets, such discretion might prove the better part of valour.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Chief fiction officer

Aug 23rd 2007
From The Economist print edition

Joseph Finder thinks that novels provide better insight into business than journalism

josephfinder.com

THE pages of the *Harvard Business Review* are not usually populated by novelists and—let's face it—rare is the author who would choose to promote his latest novel by writing a prequel for the *HBR*. But Joseph Finder is just such a rarity. This week the *HBR* posted a fictitious case study by Mr Finder on its website. Readers will now have a chance to comment; the most interesting contributions, as well as the remarks of several corporate grandees, will appear alongside the story in the printed version of the magazine in October.

In the case study Mr Finder describes a dilemma facing Cheryl Tobin, the newly installed chief executive of a big aerospace firm. She starts to suspect that her colleagues have engaged in massive corruption to win contracts. Does she dare initiate an internal investigation that could tear the firm apart? Ms Tobin is also a central character in Mr Finder's new book, “Power Play”, which was released earlier this week. In the novel her main concern is not corruption but an executive retreat on a remote island that goes horribly wrong.

The attraction of using the HBR to plug the book is simple: Mr Finder's three most recent novels, all set inside big companies, have won him a sizeable following in corporate suites. Jeff Immelt, boss of General Electric, is a fan. Some of the world's top businessmen have helped him with his research, including several former bosses of Fortune 500 companies.

A graduate of both Yale and Harvard, Mr Finder took up novel-writing after flirting with a career at the CIA and taking a stab at journalism. He had written a non-fiction book about links between American businesses and the Soviet Union but had been unable to use some of the most fascinating material he had picked up, since his sources wanted it to remain off the record. So Mr Finder wove those titbits into a political thriller instead. After three more novels on political themes, he decided to set his next book in the world of business.

“A lot of intelligence officers now work as in-house security officers for major corporations,” Mr Finder says, “and I'd ask them, 'What could a bad guy do inside a company?'” His recent novels draw in part on their responses. In his first corporate thriller, “Paranoia”, which appeared in 2004, an executive at an IT firm resorts to corporate espionage. His next book, “Company Man”, about the boss of a struggling manufacturing firm, was ahead of its time in that it cast a private-equity investor as the bad guy back in 2005. Last year Mr Finder published “Killer Instinct”, set at a Japanese-owned plasma TV manufacturer, in which control of the company's security system is used to advance the protagonist's career and destroy his enemies.

There are many novels set in offices and boardrooms. The appeal of Mr Finder's lies not in the majesty of the prose—they are airport novels, not Pulitzer candidates—but in the plausibility of their plots and the accuracy of their depiction of corporate life. “I've not seen anything that I think is total BS, that couldn't happen,” says Skip Brandon, co-founder of Smith Brandon International, a corporate-intelligence company. “The business community is pretty interesting, with all sorts of characters which he brings to life with a level of realism people can relate to,” says Bill Teuber, of EMC, a data-storage company.

Business journalism may provide plenty of facts and figures, Mr Finder argues, but it seldom gives readers much of a feel for corporate life. Fiction, in his view, can provide a more accurate picture than anything found in newspapers or management literature. At any rate, Mr Finder is convinced that corporate insiders talk more candidly to him than they do to reporters.

He has found big companies remarkably willing to provide background material. For “Paranoia” he talked with high-ups at Apple, Cisco and Hewlett-Packard—a computer-maker whose subsequent involvement in a real-life case of corporate espionage may not have come as a surprise to Mr Finder's readers. For “Killer Instinct”, NEC helped him to understand what it was like to be an American working for a big Japanese electronics firm.

Confessions of an axe-man

Mr Finder still suffers from some predictable literary prejudices: for instance, he confesses he finds it difficult to present bankers as sympathetic characters. But for the most part he is refreshingly keen to depict businessmen as motivated by more than greed and fear. In “Company Man”, the hero is a boss who has to fire many of his workers. Mr Finder asked several company bosses what it felt like to lay people off. He says they would see nothing but “downside” in discussing such issues with a reporter. But they treated him like a confessor, describing “how agonising it was, how their kids had been ostracised, beaten up, how one CEO had a glass of wine thrown at him in a restaurant.”

Not all firms are keen to confide. Mr Finder says that when he was preparing his tale of corruption in the aviation industry, Boeing “refused flatly, saying 'What's in it for us?'” Lockheed Martin, by contrast, co-operated; two of its top executives are among the expert commentators on the fictional case study. Mr Finder thinks that lingering embarrassment about a series of improprieties uncovered at Boeing earlier this decade accounts for the difference: “Lockheed's scandals are 20 years in the past. For Boeing, corruption is much more recent and painful.”

Mr Finder believes that even businessmen might learn a thing or two from his books. The kidnap experts he consulted about “Power Play”, for example, expressed concern that bosses do not think enough about security when they take their top lieutenants on bonding retreats. As he says of the novel's grisly plot, “If I can think of it, the bad guys have already thought of it, so the guys who run companies should think about it too.” Instead of running around in the woods, executives might find it safer and more useful to curl up with a good book.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Schering-Plough

Aug 23rd 2007
From The Economist print edition

In a recent story on the glue and paint business ("Unsticking ICI", August 9th) Schering-Plough should have been described as an American drugmaker, not a German one. Sorry.

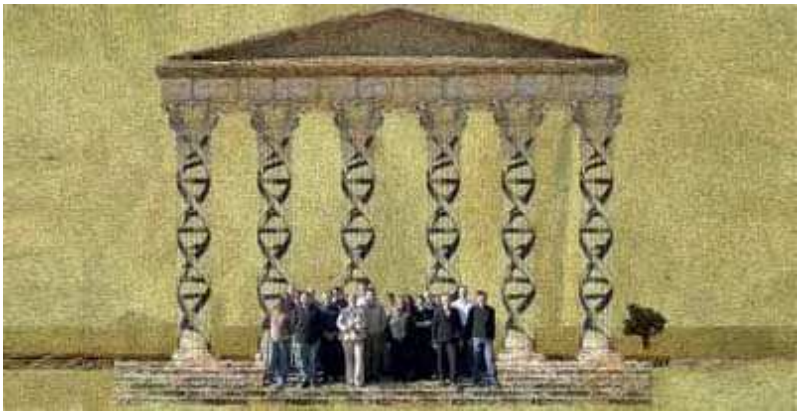
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Genetics, medicine and insurance

Do Not Ask or Do Not Answer?

Aug 23rd 2007 | NEW YORK
From The Economist print edition

Rapid advances in genetic testing promise to transform medicine, but they may up-end the insurance business in the process



“IF YOU can make a good soufflé, you can sequence DNA.” That assertion sounds preposterous, but Hugh Rienhoff should know. When his daughter was born about three years ago, she suffered from a mysterious disability that stunted her muscle development. After many frustrated visits to specialists, Dr Rienhoff, a clinical geneticist and former venture capitalist, decided to sequence a specific part of her genome himself. He discovered that her condition, which most resembled a rare genetic disorder known as Beals's syndrome, was probably due to a new genetic mutation. “Without a lab and for just a few hundred dollars, you can contract or outsource almost all the steps,” he explains.

What a well-connected and highly motivated scientist in California can do today the rest of the world will be able to do tomorrow. Indeed, a number of firms are already offering tests for specific ailments (or predispositions to ailments) directly to the public, cutting out the medical middle-man. Dr Rienhoff, for his part, will soon launch MyDaughtersDNA.org, a not-for-profit venture intended to help others to unravel the mysteries of their family's genes in the way that he unravelled those of his own.

The much-heralded genetics revolution thus appears, at last, to be arriving. As with every revolution it brings hope: rapid diagnosis of disease; treatments tailored to have maximum effect with minimum side-effect; even the possibility of prevention through early warnings of susceptibility. However, as with every revolution, there is fear as well. That fear is focused mainly on the question of what has come to be known as genetic privacy.

As medieval European Christians feared to have their souls bared for public examination, lest they be suspected of heresy, so modern, secular Westerners fear the baring of the nearest thing to their individual essences that science has come up with: their genomes. If that happens, some of them suspect, they risk being consigned to the secular equivalent of limbo—the uninsured. For their part, the insurance companies have an equal and opposite fear—that they will be put out of business. They worry that those who think they have nothing, genetically speaking, to be concerned about will stop paying. They will then be left to deal only with those who have reason to believe they will need to make a claim at some time.

Concerns about genetic privacy are nothing new, of course. The original sequencing of the human genome, during the 1990s, sparked a lively debate in many countries and has resulted in a bewildering and contradictory set of policies around the world. This year, however, a series of discoveries in the field of medical genetics has reignited the debate.

Unzipping your genes in public

Earlier this year, a group of researchers at the Broad Institute in Cambridge, Massachusetts published a piece of research that connected certain genes to type II diabetes (the sort that appears later in life). What was significant about it, according to Eric Lander, the Broad's boss, is that many of the genes in question were surprise discoveries. They had not been on the list of suspects when the study started.

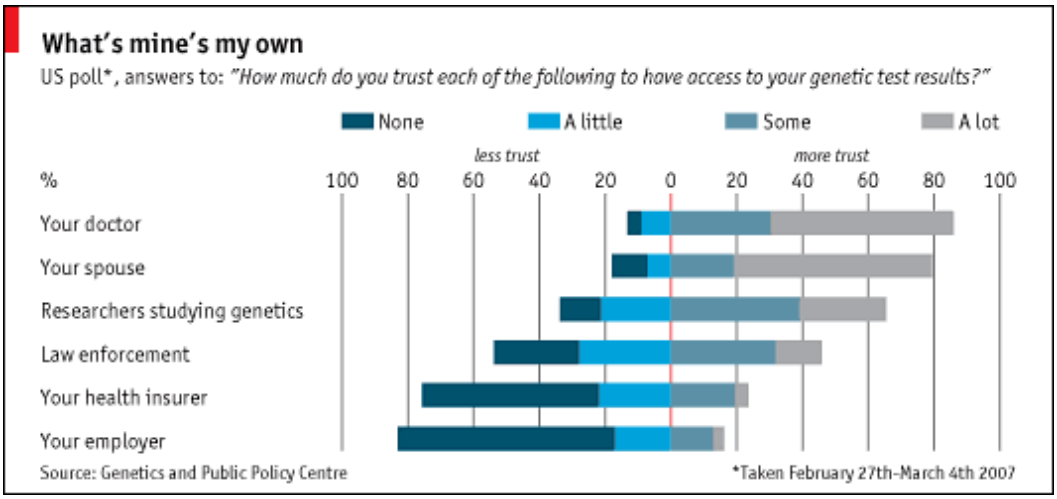
Diabetes is not alone in throwing up surprises. The falling price and growing reach of DNA-sequencing technology has allowed researchers around the world to isolate, over the past few months, dozens of genetic variations that are strongly associated with coronary heart disease, rheumatoid arthritis, multiple sclerosis, Crohn's disease, high blood pressure and several mental disorders. Dr Lander, a veteran of the Human Genome Project, is used to hype about the field, but even he thinks there has been a significant acceleration in the rate of discovery this year.

That acceleration is likely to continue. The goal is the ability to sequence entire human genomes cheaply. The sequence produced by the Human Genome Project cost several billion dollars. Now the cost per genome is nearer $1m—at least that is the figure mentioned for the public sequencing of Jim Watson's genome by 454 Life Sciences earlier this year. (Dr Watson is the co-discoverer of the DNA double helix, and thus one of the doyens of the field.)

Having brought the cost down by three orders of magnitude, the aim is to drop it by another three, to $1,000, and also to speed things up. To that end, the X Prize Foundation, an innovative American charity, is offering a $10m prize to the first team to decode the DNA of a hundred people within ten days. Dozens of groups from around the world have signed up, and the organisers expect a winner in less than five years. And it may not take that long. George Church of Harvard University recently started what he calls the Personal Genome Project. This aims to decode the genetic material of 100,000 people over the next year or so.

Forewarned is forearmed

The upshot of all this is that genetic testing is on the verge of breaking through as a mass-market product at a time when the genetic underpinnings of a large number of common diseases are being disentangled. Indeed, there are already several genetic tests on the market that show the potential of what has come to be known as personalised medicine—that is, medicine tailored to an individual's genetic make-up. For example, Herceptin and Gleevec are expensive new cancer drugs that work only in some people. In the past, doctors had no choice but to take a blunderbuss approach with drugs like these, prescribing them to everyone and then halting treatment if a patient did not improve. Now genetic tests are used to detect which patients are likely to respond before the drugs are prescribed. This saves money and frees unresponsive patients to seek other treatment.



Joanne Armstrong, chief medical officer of Aetna, a big American insurance firm, cautions that the trend toward personalised medicine will be “evolutionary, not revolutionary” but nevertheless accepts it is a real one. She points to a genetic test that shows how long patients should be treated for hepatitis C. It turns out that a commonly prescribed treatment works much faster on some people than others. She observes that despite the availability of this test, many patients are kept on the medicine far longer than necessary, an expense her firm is keen to avoid.

Nor are insurers the only people who see potential cost savings arising out of the genomic revolution.

Michael Barber, who works for the health-care division of General Electric, a large American conglomerate, argues that the trend will make possible a dramatic shift toward preventative medicine. He points to tests for mutations in the *BRCA 1* and *BRCA 2* genes that are strongly correlated with breast cancer. Catch this disease early, he reckons, and the cost of treatment is only $10,000 to $15,000. Wait till later and it shoots past $60,000 (and, of course, the disease is more likely to lead to death).

Not everyone is convinced. Robert Cook-Deegan of Duke University, in North Carolina, wonders who will pay for prevention, at least in America. The governments of countries with taxpayer-financed medical systems have an incentive to invest in genetic tests that help with prevention. America's privately run insurance market does not. That is because Americans tend to switch health-insurance firms from time to time, so prevention measures paid for by one firm may end up benefiting another. On the other hand, insurance companies are likely to be very interested in the results of genetic tests that show how risky a particular individual's policy is likely to be. And that goes to the heart of the question of genetic privacy.

Pro bono publico

Rosanna Capolingua, the head of the Australian Medical Association, warned in June that the rising tide of genetic data could be used by insurance firms to discriminate against those with higher risks of certain illnesses (as the chart shows, insurance companies are among the groups that people least wish to share their genetic information with). Britain, where insurers have agreed to a moratorium on the genetic testing of new customers until 2011, has also seen a public debate of late. Richard Ashcroft, a bioethicist at the University of London, has argued that a moratorium is not enough. Instead, the country needs a complete ban on insurance companies using genetic data, in order to prevent abuse and discrimination.

At the moment, British insurers are allowed certain exceptions. They may, for example, discriminate against those carrying the gene for Huntington's chorea, which is always fatal. They may also modify premiums depending on whether or not someone has a gene known as *SRY*—the one that makes you male.

That a person's sex is not generally thought of as being a consequence of his genes in the way that a disease is speaks to a wider point. Soren Holm, a lawyer at Cardiff University, argues that genetic data are not, in principle, different from other sorts of medical data, such as family history or cholesterol level. Insurers should therefore be allowed access to them.

In America insurers (and also employers) face a hodge-podge of anti-discrimination legislation in various states. In recent weeks, though, advocates of privacy pushed hard to pass a Genetic Information Non-discrimination Act (GINA) through Congress.

Though aspects of this bill are opposed by big business and insurers, they dare not object too noisily since polls suggest Americans are overwhelmingly in favour of a law protecting genetic privacy. The reason, according to Mark Pauly of the University of Pennsylvania's Wharton business school, is that they are terrified that their ability to get insurance will be compromised. As a consequence, GINA commands support from both parties in Congress and from President George Bush. The bill passed the House of Representatives before the summer recess. Some version of it seems likely to become law soon.

Secrets and lies

A strong law banning the use of genetic data in employment or insurance decisions would certainly be popular, but it is not clear that it would help people over the long term. Indeed, it may unintentionally end up disrupting the genomics wave by making it harder to do scientific research that relies on such data. It may even wipe out parts of the insurance industry and thus leave consumers worse off.

In the short term, the case for strong privacy laws seems clear. Francis Collins, an official at America's National Institutes of Health who led the American arm of the Human Genome Project, argues strongly for GINA. He claims that many people with genes worth studying are avoiding research projects for fear of facing genetic discrimination later in life. Never mind altruism, says Dr Cook-Deegan, many people are even avoiding genetic screening that could save their own lives.

The problem arises when one looks to the medium term. If genetic information is kept secret from insurers, but individuals have the freedom to add or drop insurance coverage, then problems of adverse selection may arise. People will be tempted to “game” the system. Those who test negative for a serious

and costly disease may drop coverage, while those who test positive may add or increase coverage. Insurers worry this will lead to a collapse of their risk pools, and ultimately to financial ruin.

How serious a possibility that really is remains to be seen. Dr Cook-Deegan was one of the authors of a study that showed a significant risk of adverse selection in the market for long-term-care insurance (the sort bought by the young in order to ensure they have nursing care when they become old and infirm). He studied patients who took a test to see if they had a gene strongly linked with Alzheimer's disease. Those who tested positive were more than five times as likely to alter their insurance arrangements after the test as those who did not. On the other hand, Jean Lemaire, one of Dr Pauly's colleagues at the Wharton business school, points to research suggesting that most women who discover they have faulty *BRCA* genes do not rush to buy lots of insurance.

Some experts reject the adverse-selection argument, even as they affirm their concern about the future of the insurance market. Stephen Cecchetti, a professor at Brandeis University's business school, thinks insurers are clever enough to figure out which patients are acting on the results of genetic tests, and to tease out those results implicitly. He is confident that insurance firms will manipulate their prices in ways that force patients to reveal adverse genetic biases.

In any case, as Dr Church points out, there are myriad ways, ranging from hacking by miscreants to clever cross-referencing of public data and health records, that supposedly private genetic data could become public. For both his and Dr Cecchetti's reasons, even GINA is unlikely to be able to keep genetic information secret. “And once you have perfect information,” Dr Cecchetti thinks, “it will be the death of insurance, which depends on uncertainty and pooled risk.”

If that is the consequence, then other ways of paying will have to be devised. Carol McCall of Humana, a big American health-care provider, thinks a move toward some sort of compulsory, universal coverage is inevitable, even in America. That need not necessarily mean a scheme financed mainly out of taxation, of the sort found in most other rich countries. However, social outrage over a rising class of uninsurables may make the government an insurer of last resort—particularly, as Dr Cecchetti observes, when some rich and powerful people discover that they, too, are not immune from the genetic lottery. He reckons testing will lead to individuals receiving a health score akin to today's personal credit score. Those whose files come on screen to the accompaniment of flashing red lights will not find it easy to obtain cover for much less than the cost of paying for their treatment themselves.

That leads to another approach: individual health-savings accounts that bypass insurance altogether. In America, this may be the way forward. There are already tax breaks for individuals who open health accounts akin to the individual retirement accounts that have transformed the country's pension system. Several big companies, including Bank of America, seem keen to expand into this area, and venture capitalists are moving in, too. One such, Robert Higgins of Highland Capital, thinks his protégé RedBrick Health could one day be the Fidelity of health care.

Knowledge or certainty?

Whatever the outcome of the privacy debate it seems clear that genomics will, in time, transform the insurance market every bit as much as it transforms the practice of medicine. The coming deluge of genetic information will force society to discuss openly the trade-offs, such as how to ration care, that have long been made in the shadows. It may even force the insurance industry to explain why it is allowed to discriminate on the basis of factors such as family medical history, pre-existing conditions and sex that are beyond the control of individuals.

According to Angus Macdonald, an expert on genetics and insurance at Heriot-Watt University in Scotland, discrimination based on family history is particularly vulnerable—such history is, after all, a surrogate for an individual's genes. But he reckons that unless genetic information continues to be regarded as special, almost any part of underwriting could be at risk. The question of how much genes influence an individual's destiny may still be controversial. But the rise of genomics looks certain to play a big role in the destiny of the insurance industry.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Markets and the economy

Paper losses

Aug 23rd 2007 | LONDON AND NEW YORK
From The Economist print edition

Reuters

Central banks struggle to restore calm without breeding complacency

FOR those who stop short of stuffing their mattress with banknotes, money-market funds are meant to be the next best thing. They invest their clients' money in supposedly safe and liquid short-term instruments. But as America's mortgage malaise has spread with shocking alacrity from one corner of the credit markets to another, even these staid creatures have been sent into spasms. This week they took centre stage, dumping potentially toxic securities and fleeing for the safety of government bills.

Though the markets had calmed down a little by August 22nd, central bankers cannot afford to be complacent. They have pumped large amounts of liquidity into the system over the past fortnight, and continued to do so this week. The Federal Reserve has cut the discount rate—the charge it makes for emergency lending to banks—from 6.25% to 5.75%, and lengthened the term of these loans to 30 days. It has also urged banks not to be shy in coming forward. To show there is no shame in turning to the Fed, four big banks—Citigroup, JPMorgan Chase, Wachovia and Bank of America—all this week announced they had taken the central bank up on its forceful offer.

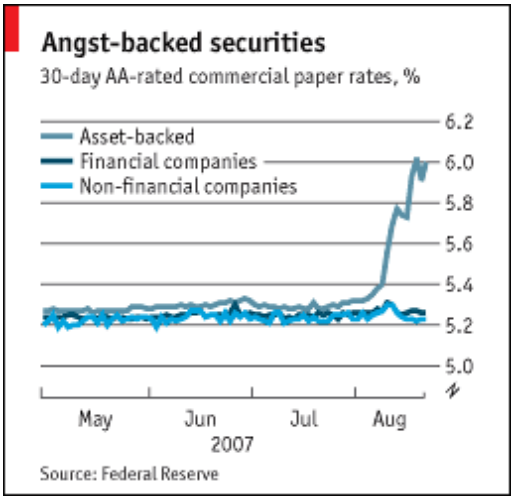
Will this be enough? In a statement, the Fed's rate-setting committee left the markets in little doubt that it would cut its main policy rate if their ongoing ructions hurt spending and jobs. And Ben Bernanke, the Fed's chairman, was quoted by the head of the Senate Banking Committee as saying that he would use “all tools available” to quell the crisis. Elsewhere, Japan's central bank put off a rate rise it had long been itching to implement; and, despite hints to the contrary, the European Central Bank could still find itself in the same position when it meets on September 6th.

Stockmarkets have been reassured by all this. But the “locus of concern”, as the Fed's Jeffrey Lacker put it this week, remains the more obscure market for “asset-backed” commercial paper.

Some commercial paper is easy to understand: a big company sells an IOU, which it repays in, say, 90 days. This stuff got the American financial system into trouble in 1970, when Penn Central Railroad defaulted on $82m-worth. The recent problems stem from a different brand of paper, backed not by the good name of a big company, but by assets, such as mortgages or credit-card receivables. Mostly held off-balance-sheet by bank-sponsored “conduits”, this market has boomed in recent years. It now accounts for roughly half of the more than $2 trillion of commercial paper outstanding. But issuers have been caught out by a cashflow mismatch, says Louise Purtle of CreditSights, a research firm. Funding is short term but the proceeds are invested in longer-term assets, leaving issuers vulnerable when investors start

to doubt the quality of those assets and want out.

That is what happened at the start of this week as money-market funds sold these IOUs, causing rates to spike as never before (see chart). This paper suffered from two main layers of mistrust. First investors are worried that the banks won't always be able to support the conduits.



The second worry, about the mortgage collateral, is particularly stark. Rating agencies badly misjudged default rates in subprime mortgages and are now having to downgrade reams of securities linked to them. With the credibility of ratings in tatters (there have even been calls for Warren Buffett to take over Moody's), investors have been left without a compass. For the time being, many would rather pull back than trust in their own analysis of credit risk. They are staying on the sidelines because they can't work out what securities are worth, not because they don't have the money to buy them.

Ratings may be in doubt, but they remain powerful. The Fed has been offering 85% of face value for AAA-rated paper presented at its discount window, even collateralised-debt obligations stuffed with subprime mortgages (as long as they are not—yet—impaired). Josh Rosner, a critic of the rating agencies, thinks it extraordinary that, despite their obvious flaws, they “continue essentially to regulate the behaviour of even the central bank”.

Home truths

Even if stability returns to markets, the repricing of risk is likely to continue. How far it goes will depend largely on the state of the mortgages that serve as collateral for many of the newfangled instruments that were, until recently, hawked with glee on Wall Street. The outlook is not good. Not only do subprime delinquencies continue to rise, but defaults on prime and Alt-A loans (those to good- or middling-quality borrowers) have started to climb too. Figures released this week showed foreclosures in July up by 9% compared with June, and by 93% over the year before.

It may be little comfort to overstretched mortgage-holders to know that the lenders are also sharing the pain. Accredited, a subprime lender, said this week it would stop taking loan applications and let more than half its workforce go. And Lehman Brothers became the first investment bank to close its subprime-lending arm, at the cost of 1,200 jobs.

Only the best borrowers—those taking out prime mortgages that conform to criteria set by Fannie Mae and Freddie Mac, the government-sponsored housing giants—can still get loans with any ease. The market for jumbo loans, which are safe but too large for Fannie or Freddie to guarantee, ground to a halt last week, although conditions have eased a bit since.

This contamination up the mortgage food chain was not unexpected. But Fed officials are said to have been taken aback by the speed with which large non-subprime lenders, such as Countrywide and Capital One, have been hit. Countrywide is America's biggest mortgage provider, and one of its best managed. But it was still forced to draw on bank credit lines after struggling to fund itself through the usual channels. On August 22nd a rescuer arrived: Bank of America said it would make a $2 billion equity investment in Countrywide.

A jam in the flow of credit to homebuyers threatens an already vulnerable economy. If consumers seek to pay down debt in response to falling house prices, spending will suffer, especially with unemployment creeping up. If the economy falters, that should relieve price pressures too. Oil prices dropped below $70 this week from a recent peak of around $78. Richard Berner at Morgan Stanley reckons that market turmoil will itself trim inflation since “it will make buyers hesitate and sellers worry that prices won't stick.”

Many now expect a cut in the Fed's benchmark rate from 5.25% at its next policy meeting on September 18th. Some think the Fed may act sooner. But it may yet disappoint them. “Financial-market volatility, in and of itself, does not require a change in the target federal funds rate,” said Mr Lacker this week. The Fed is anxious to calm the credit markets, so that the economy's funds are allocated in line with risk and reward. But even if it succeeds, risky assets are likely to hold much less appeal than they did. The central

banker's task is to unscramble price signals distorted by panic, not to protect the markets from a signal that they do not like.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Distressed-debt funds

Cashing in on the crash

Aug 23rd 2007 | NEW YORK
From The Economist print edition

Tempting morsels for strong stomachs

AP

Is there a pair in Buffett's size?

THE past few years have been lean ones for those who feed off corporate carrion. Now, as credit markets creak, distressed-debt investors—known less kindly as vulture funds—are confident that their time has come at last.

Many can claim to have seen the rout coming. Private Equity Intelligence, a research firm, calculates that vulture funds raised $15.6 billion in the first seven months of this year, more than the $13.9 billion they garnered in all of 2006, itself a record. A further $30 billion is in the works, including a giant $20 billion fund being pieced together by Goldman Sachs.

Nothing gets vultures squawking louder with delight than a wave of forced selling. This week Thornburg, a property firm facing funding difficulties, sold an array of top-notch securities worth over $20 billion at a 5-10% discount. Highly leveraged, computer-driven “quant” funds are having to liquidate shares, bonds and anything else they can sell in order to meet margin calls from their prime brokers. As markets tighten, creditors will also be less willing to refinance wobbling companies. That could mean an imminent end to the bankruptcy drought.

While some hedge funds suffer, others are poised to snaffle up bargains. Citadel, Ellington and Marathon Asset Management, among others, have both the ready cash and the inclination. Citadel traditionally keeps more than a third of its assets in cash or liquid securities, allowing it to pounce when opportunities arise. It recently took over a chunk of Sowood Capital, a rival that buckled under bad bets.

If the past is any guide, spectacular returns beckon for some. John Mauldin, publisher of an investment newsletter, points out that during America's 1980s savings-and-loan crisis, bottom-fishers could net perfectly good mortgages for 15 cents on the dollar.

Two skills will be particularly useful: spotting the gems in the rubble, and timing. An investor who pays 90 cents on the dollar for debt that is almost certain to be repaid can make mouth-watering returns with

minimal leverage. But after WorldCom's collapse, many would-be vultures swooped too early, tearing into the discounted bonds of cable and telecoms firms, only to see them tumble further.

Ironically, the very firms that helped to inflate the credit bubble are now among the keenest to profit from its bursting. Blackstone and TPG, two of the biggest sponsors of leveraged buy-outs, both have distressed-debt funds, and Blackstone has expanded its already big restructuring unit. Private-equity firms are even looking to buy debt in each other's deals at a discount, says Martin Fridson, an independent credit analyst.

Experience counts for more in busts than in booms. So no one was surprised when Wilbur Ross, who earned a fortune buying up failed steelmakers, made an “initial foray” into subprime mortgages this month, offering $50m to a bust lender. Warren Buffett is also sniffing around, armed with a cash pile approaching $50 billion. When the price is right, he told the *Wall Street Journal* this week, “I can spend money faster than Imelda Marcos.” Unlike the Philippines' former first lady, however, he will be looking for weather-beaten shoes in need of a shine.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Stock exchanges

Northern exposure

Aug 23rd 2007
From The Economist print edition

NASDAQ turns its attention to a Nordic target after its pursuit of the LSE fails

SCANDINAVIA'S stockmarkets may lie on the periphery of global capitalism. But OMX, the Nordic conglomerate that runs most of them, is now at the centre of a long battle to reconfigure the world's financial exchanges. The company, which operates bourses from Stockholm to Vilnius, is being pursued simultaneously by America's NASDAQ and Borse Dubai, a Middle Eastern financial group.

For NASDAQ, whose offer is favoured by OMX management, the pursuit is bittersweet. On August 20th it announced plans to sell its 31% stake in the London Stock Exchange (LSE), one of the world's biggest equities markets. The Americans had held on to their stake for months after an unsuccessful takeover attempt for the LSE. It was not alone in its failure. Several other big financial institutions—Deutsche Börse, Euronext and Macquarie Bank—met a similar fate when pursuing the LSE in the past.

In the ongoing game of global exchange consolidation, the question now is who will control OMX? NASDAQ's bid of SKr208 ($30.45) per share was subsequently topped by the Dubai group's SKr230 all-cash offer. By shedding its LSE stake, NASDAQ will have room to sweeten its bid. Meanwhile Borse Dubai, a government-backed group that runs Dubai's financial centre, acquired 4.9% of OMX this month and has options from hedge-fund investors to acquire another 23.5%. These options have irked Sweden's regulator, which this week ruled the group had, in effect, made a takeover bid, without formally announcing it.

OMX may not have the cachet of the LSE, but it is more attractive than it appears at first blush. A pioneer in cross-border mergers, its bourses across Scandinavia and the Baltic offer a toehold for foreign suitors seeking access to Europe. The region's exchanges are in flux ahead of the November 1st implementation of a European Union regulation intended to increase competition across member states. NASDAQ is eager for a European deal since its American rival, the New York Stock Exchange (NYSE), sewed up a merger with Euronext earlier this year. NYSE, too, once looked longingly at the LSE.

OMX boasts another side to its business that looks equally attractive: providing trading technology to exchanges around the world. As the markets swing, investors tremble and trading volumes soar, stock exchanges are doing brisk business. The sort of technology that OMX delivers is critical to keeping capital markets running smoothly. OMX serves more than 60 customers in over 50 countries.

The frenetic trading may be good for exchanges in the short term, but will it harm them in the long run? Hedge funds account for a big share of trading volumes. But the financial crisis may clip their fast-beating wings. Benn Steil, of the Council on Foreign Relations, suggests that a popular hedge-fund strategy called statistical arbitrage “looks like it's going to be dead for quite a while.” Chastened hedge funds may mean quieter trading and weaker revenues for the exchanges. One solution for a conglomerate like OMX is to split in two. There is speculation that the former head of the firm, who now runs Dubai's financial market, is interested in the technology business. The exchanges portion seems a better fit for NASDAQ.

There may also be scope for brokers, as well as exchanges, to consolidate. Two hedge funds that hold stakes in TD Ameritrade, a big online brokerage, are urging it to merge with E*Trade Financial, another broker. The firms have talked but failed to agree in the past.

Meanwhile the LSE's fate remains unclear. It clinched a deal earlier this year with Borsa Italiana, a mid-sized exchange, but still lacks a vibrant derivatives business. This may eventually push it toward a bigger tie-up. For now, though, the LSE is prompting suitors to seek matches elsewhere and importune it no more.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Emerging markets (1)

Full of eastern promise

Aug 23rd 2007 | HONG KONG
From The Economist print edition

Could Asian shares provide a safe haven for global investors?

IT OFTEN seems that everything is made in China, but certainly not the latest turmoil in financial markets. Over the past four weeks, as world share prices have plunged, Chinese A-shares have leapt by over 20%. And as central banks elsewhere worry about a credit crunch, China's central bank this week raised interest rates for the fourth time this year.

Foreigners cannot buy A-shares, which means they cannot dump them either. The rest of Asia is less snugly insulated. Last week its markets suffered their biggest weekly fall for 17 years, and they remain 12% below their peak. Big financial losses in mortgage-linked securities have forced global investors to pull money out of emerging markets to raise cash and reduce the “risk” in their portfolios.

But the notion that all emerging-market shares are risky is looking out of date. Based on fundamentals, Asian shares are now arguably less risky than many American ones. Although Asian financial firms have suffered some losses from securities linked to American subprime mortgages, their direct exposure is thought to be relatively small.

Moreover, Asian share prices look good value compared with those elsewhere. Despite a surge over the past few years, most markets are still below their mid-1990s peaks in dollar terms, including the Chinese shares that foreigners can buy. Yet profits have soared since then. One legacy of the 1997-98 Asian crisis is that firms now focus on making money rather than maximising market share or assets.

The price-earnings (p/e) ratio for the region is below its 20-year average (see chart) and lower than that in America, even though faster growth in output and profits should justify a higher p/e. On many counts Asia is in a better position than other emerging markets, though some of them, too, are better prepared than they used to be (see article). Since the start of the global bull market in 2003 emerging Asian shares have gained 210% in dollar terms, compared with an average of 440% in Latin America. Yet Asia has by far the better growth prospects. The IMF forecasts that developing Asia will grow by an annual average of 8% over the next five years, Latin America by 4%.

Most Asian economies are also much less vulnerable to capital outflows than they used to be, enjoying a current-account surplus and a large hoard of currency reserves. Foreign investors need worry less about an exchange-rate loss than in the past as many currencies are if anything undervalued. Asia also shows few signs of excess. Bank lending is growing much more slowly than a decade ago, and Asia is one of few parts of the world not experiencing a housing bubble. A recent study by the IMF finds that in most Asian countries house prices have not kept pace with incomes since 1999.

The glaring exception to all of this is India, which unlike the rest of Asia has a housing bubble, a borrowing binge and a current-account deficit. By most measures, Indian shares also look pricier relative to their historical trend than anywhere else in Asia.

One big concern is that if Asian stockmarkets still dance to the same beat as Wall Street, they will also trip up if America sinks into recession. Economists continue to argue fiercely about whether Asia can decouple from the world's biggest economy. But to some extent it already has. The growth in America's domestic demand has slowed from 4.4% in 2004 to only 1.3% in the year to the second quarter, and imports fell in the second quarter. Yet Asia continues to boom, with most economies accelerating in recent months.

Exports to America have slowed sharply, but this has been offset by faster growth in exports to the European Union and to other emerging economies, and stronger domestic demand. This year, for the first time, China and most other Asian emerging economies are exporting more to the European Union than to America.

Under its own steam

Nobody is suggesting that Asia would escape unscathed from a sharp American downturn. But it is less vulnerable than in the past thanks to a reduced dependence on the American market and stronger domestic spending. China's retail sales surged by over 16% in the year to July, and even without the boost from net exports China's GDP growth would still be an impressive 9% this year. On the other hand, domestic demand remains weak in Taiwan and Thailand.

If exports were to collapse, governments in emerging Asia could loosen their purse strings. Most have small budget deficits, some even have surpluses, giving them plenty of scope to ease policy to boost domestic demand. (India, again, is the big exception.) Central banks in India and South Korea, as well as China, have been tightening monetary policy this year to cool their economies. If need be, they could relax their grip.

Asia's prudence in the past ten years now offers global investors a relatively safe haven. Investors who have recently dumped Asian shares may well kick themselves in a year's time. But then many of them are the same prescient investors who jumped into subprime mortgages.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Emerging markets (2)

A shrug not a shudder

Aug 23rd 2007 | SÃO PAULO
From The Economist print edition

Brazil is the clearest example of Latin America's newfound financial stability

AP

$160 billion-worth of calm

IN FINANCIAL circles, Latin America has long had a reputation as something of a “subprime” continent that periodically struggles to repay the money lent to it by reckless creditors. One might therefore expect Brazilians, who remember the crises of 2002, 1999 and 1998, to respond to America's current woes with empathy—and not a little fear.

Sure enough, Brazil's main stockmarket index, the Ibovespa, lost 17% of its value from July 23rd to August 16th. The Brazilian real has also fallen beyond the symbolic rate of two to the dollar. But despite this, investors and analysts seem to share the sunny attitude of the country's president, Luiz Inácio Lula da Silva. “Brazil is not afraid of this crisis,” he said this week. It is, he insists, “an eminently American crisis” caused by people trying to make a lot of “third-class money”.

Such contemptible folk have also left their mark on Brazil, of course. Its stockmarket has attracted foreign speculators, and its bonds have proved attractive to hedge funds, betting that Brazilian interest rates would continue to fall. Some of these investors have now been forced to pull out of Brazil to cover obligations elsewhere. But many are staying put. Yields on Brazil's sovereign debt have risen, but not by much. They remain just 2.17 percentage points above those on American Treasuries. And although foreigners were probably responsible for the bulk of Brazil's stockmarket losses, the Ibovespa is still up about 20% for the year in dollar terms.

That markets have not sunk further is testimony to Brazil's newfound macroeconomic buoyancy. The government's budget surplus, before debt payments, beat its first-half target this year. Thanks to booming commodity prices, the country also enjoys a healthy current-account surplus, which has helped the central bank to accumulate about $160 billion in reserves. In fact, Brazil is now a net dollar creditor, which means it has much less to fear from a fall in the real against the greenback. Indeed, a weaker Brazilian currency would help manufacturing exporters, who have been complaining of late that the real is too dear.

Nuno Camara of Dresdner Kleinwort, an investment bank, believes that the current turmoil may even hasten Brazil's attainment of investment-grade status. Once the dust has settled, he says, those countries that have “done their homework”, running up current-account surpluses and reserves, will see the money come back. This diligent group includes Chile, which has run bigger current-account surpluses than Brazil, and Peru. Mexico has been “medium-nice”, according to André Cappon of the CBM Group, a New York-based consultancy. It has kept its public finances in order and its prices stable, but it still has an external deficit and its economy is more exposed to a downturn in America. Other Latin American countries—namely Argentina, Ecuador and Venezuela—have been less strait-laced. Their risk premiums have risen significantly.

In the shakier past, a quick outflow of money from Brazil and its neighbours might have triggered weaker currencies, higher debt costs, faster inflation and punitive interest rates. But if Lula is right, that grisly economic plotline may no longer be so eminently Latin American.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Does America need a recession?

Aug 23rd 2007
From The Economist print edition

An intriguing, if unpopular, thought

Illustration by Jac

THE late Rudi Dornbusch, an economist at the Massachusetts Institute of Technology, once remarked: “None of the post-war expansions died of old age. They were all murdered by the Fed.” Every recession since 1945, with the exception of the one in 2001, was preceded by a sharp rise in inflation that forced the central bank to raise interest rates. But today's Federal Reserve is no serial killer. It seems keener on blood transfusions than on bloodletting.

When the Fed cut its discount rate on August 17th, it admitted for the first time that the credit crunch could hurt the economy. The markets are betting it will soon cut its main federal funds rate. Economists are arguing vigorously about how much damage falling house prices and the subprime mortgage crisis will do. But there is one question that is rarely asked: even if a downturn is in the offing, should the Fed try to prevent it?

Most people think the question smacks of madness. According to received wisdom, the Fed should not cut interest rates to bail out lenders and investors, because this creates moral hazard and encourages greater risk-taking; but if financial troubles harm spending and jobs the Fed should immediately ease policy so long as inflation remains modest. Central bankers should be guided by the “Taylor rule”—and set interest rates in response to deviations in both output and inflation from desired levels.

A necessary evil

But should a central bank always try to avoid recessions? Some economists argue that this could create a much wider form of moral hazard. If long periods of uninterrupted expansions lead people to believe that the Fed can prevent any future recession, consumers, firms, investors and borrowers will be encouraged to take bigger risks, borrowing more and saving less. During the past quarter century the American economy has been in recession for only 5% of the time, compared with 22% of the previous 25 years. Partly this is due to welcome structural changes that have made the economy more stable. But what if it is due to repeated injections of adrenaline every time the economy slows?

Many of America's current financial troubles can be blamed on the mildness of the 2001 recession after the dotcom bubble burst. After its longest unbroken expansion in history, GDP did not even fall for two consecutive quarters, the traditional definition of a recession. It is popularly argued that the tameness of the downturn was the benign result of the American economy's increased flexibility, better inventory

control and the Fed's firmer grip on inflation. But the economy also received the biggest monetary and fiscal boost in its history. By slashing interest rates (by more than the Taylor rule prescribed), the Fed encouraged a house-price boom which offset equity losses and allowed households to take out bigger mortgages to prop up their spending. And by sheer luck, tax cuts, planned when the economy was still strong, inflated demand at exactly the right time.

Many hope that the Fed will now repeat the trick. Slashing interest rates would help to prop up house prices and encourage households to keep borrowing and spending. But after such a long binge, might the economy not benefit from a cold shower? Contrary to popular wisdom, it is not a central bank's job to prevent recession at any cost. Its task is to keep inflation down (helping smooth out the economic cycle), to protect the financial system, and to prevent a recession turning into a deep slump.

The economic and social costs of recession are painful: unemployment, lower wages and profits, and bankruptcy. These cannot be dismissed lightly. But there are also some purported benefits. Some economists believe that recessions are a necessary feature of economic growth. Joseph Schumpeter argued that recessions are a process of creative destruction in which inefficient firms are weeded out. Only by allowing the “winds of creative destruction” to blow freely could capital be released from dying firms to new industries. Some evidence from cross-country studies suggests that economies with higher output volatility tend to have slightly faster productivity growth. Japan's zero interest rates allowed “zombie” companies to survive in the 1990s. This depressed Japan's productivity growth, and the excess capacity undercut the profits of other firms.

Another “benefit” of a recession is that it purges the excesses of the previous boom, leaving the economy in a healthier state. The Fed's massive easing after the dotcom bubble burst delayed this cleansing process and simply replaced one bubble with another, leaving America's imbalances (inadequate saving, excessive debt and a huge current-account deficit) in place. A recession now would reduce America's trade gap as consumers would at last be forced to trim their spending. Delaying the correction of past excesses by pumping in more money and encouraging more borrowing is likely to make the eventual correction more painful. The policy dilemma facing the Fed may not be a choice of recession or no recession. It may be a choice between a mild recession now and a nastier one later.

This does not mean that the Fed should follow the advice of Andrew Mellon, the treasury secretary, after the 1929 crash: “liquidate labour, liquidate stocks, liquidate the farmers, and liquidate real estate...It will purge the rottenness out of the system.” America's output fell by 30% as the Fed sat on its hands. As a scholar of the Great Depression, Ben Bernanke, the Fed's chairman, will not make that mistake. Central banks must stop recessions from turning into deep depressions. But it may be wrong to prevent them altogether.

Of course, even if a recession were in America's long-term economic interest, it would be political suicide. A central banker who mentioned the idea might soon be out of a job. But that should not stop undiplomatic economists asking whether a recession once in a while might actually be a good thing.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

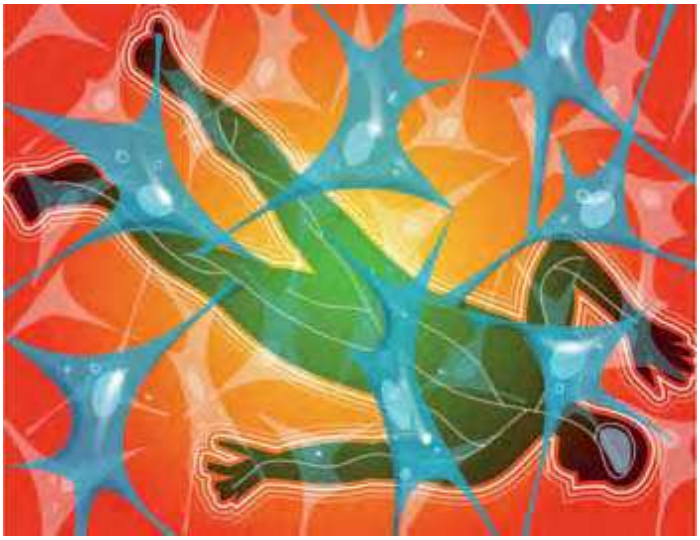
Consciousness

Out of your mind, not out of your body

Aug 23rd 2007
From The Economist print edition

Out-of-body experiences can now be created at will. Studying them sheds light on the nature of consciousness

Illustration by Stephen Jeffrey



“I HOPE to convince you that the time has come to take up consciousness as a strictly biological problem.” So rang out the opening address at the 1902 meeting of the American Association for the Advancement of Science (AAAS). However Charles Sedgwick Minot, the anatomist who said those words, jumped the gun. Consciousness is still an enigma. That it is created within the brain, scientists agree. That it is biology's most intellectually glamorous problem, they also concur. But what it is and how to find it remain unclear. Which is why, despite Minot's aspiration, its study has remained fodder for the rambling final chapters of cognitive-science textbooks and those at the dusky end of distinguished scientific careers. Few have dared take it on without a tenured position under their belts and a Nobel-prize medal around their necks.

Recently, however, two youngish biologists without Nobel prizes have had a go. Working independently, Henrik Ehrsson of the Karolinska Institute in Stockholm and Olaf Blanke of Geneva University Hospital have been making inquiries into the notion of the bodily self—an important part of conscious experience.

A sense of self is what makes a person distinct from his environment and from other people in it. It is also the thing upon which more complex layers of consciousness appear to rest. Dr Ehrsson and Dr Blanke try to divorce this perceived self from the perceiver's body—in other words to create that phenomenon so beloved of mystics, an out-of-body experience. And in two papers published in this week's edition of *Science*, the AAAS's house journal, they report their latest results.

Reality is an illusion

Dr Ehrsson's previous experiments have relied on an illusion called the rubber hand. This shifts someone's sense of owning his body away from his real hand to a prosthetic one. It works by allowing him to view only the rubber hand while both it and his real hand are stroked in synchronicity with one another. That coincidence is enough to fool the part of the brain that integrates inputs from different senses. The result is to redirect the subject's sense of self from his real hand to the rubber hand in a way analogous to the redirection employed by a ventriloquist when he makes his dummy “speak”.

Dr Blanke, by contrast, works with epileptics. Occasionally, people who suffer from epilepsy report having standard out-of-body experiences—the ones in which an individual looks down on himself from above. Five

years ago Dr Blanke found he could induce such experiences at will in one such person by stimulating a particular part of her brain—the right angular gyrus—with an electric current. A small current made her feel as though she was sinking into her bed; a little more had her floating close to the ceiling or seeing her legs kicking towards her face.

Once again, the part of the brain in question seems to be involved in integrating inputs from different senses. If this area is overstimulated during the electrical brainstorm that is an epileptic fit, the consequence is an out-of-body experience.

With these results in mind, both Dr Ehrsson and Dr Blanke wondered if they could design experiments that would induce complete out-of-body experiences in healthy volunteers. The answer, in both cases, was that they could.

Dr Ehrsson did it by making his volunteers look at themselves from behind. He sat them in a chair and asked them to wear virtual-reality goggles, which work by projecting a picture in front of each eye. Behind the chair there were two video cameras adjusted so that they were at the level of the volunteer's eyes. The left-hand camera sent its picture to the left eye of the goggles; the right-hand camera sent its picture to the right eye. The subjects could thus see their own backs, in stereo, as though they were sitting behind themselves.

Dr Ehrsson then tested how touch is combined with vision to locate the self. When he tapped his volunteers on their chests at the same time as he tapped the air at chest-height below the cameras, they reported feeling that the core of their identity inhabited the camera's position. They were, in other words, out of their own bodies, and they considered their real selves—seen through the goggles—as another person. When, however, he prodded the chest and the air at different times, that illusion immediately dissolved.

To make sure his volunteers were telling the truth, Dr Ehrsson surprised them after two minutes of tapping by swinging a hammer towards the camera. While he did this, his apparatus measured the level of sweat on the volunteer's skin. Since people sweat in response to a threat, that level is a good indication of what someone is really feeling. The sweat levels confirmed that volunteers really did feel threatened when the place they perceived themselves to be—the site of the camera—was attacked.

Dr Blanke also asked his volunteers to wear virtual-reality goggles. But in his case the volunteer was standing and what he saw was one of three things. The first was a three-dimensional “avatar” of his own body—viewed from behind, as with Dr Ehrsson's experiment. The second was an avatar of a humanlike dummy, again viewed from behind. The third was a human-sized cuboid.

Instead of tapping his volunteers, Dr Blanke stroked them with a paintbrush while, at the same time, the computer “stroked” the avatar with a virtual brush. Sometimes the strokes were in synchronicity, sometimes they weren't.

After each viewing the goggles went dark, so that the volunteer could see nothing at all. He was then pulled backwards a few steps and asked to return to his original position. If the avatar he had been watching was a cuboid, that was easy. It was also easy if the avatar had been humanlike (whether representing the volunteer or not) and the stroking had been asynchronous. But if the avatar had been humanlike and the stroking synchronous, then the volunteer always walked to the place where the avatar would have been standing had it been real. The volunteer, in other words, identified the avatar's former location as having been his own.

Astral projection this is not. But it is a demonstration that one aspect of consciousness can be modified in a reproducible way. And that may be the key that unlocks the vault. For, if the methods Dr Ehrsson and Dr Blanke have come up with can be reproduced on volunteers inside a brain-scanner, then it might be possible to study the neurological network involved. Presumably this will include the right angular gyrus. But other components, as yet unknown, must surely be involved.

That will help to bring the study of consciousness into a mainstream in which the non-tenured can study it without receiving funny looks from their colleagues. And, who knows, it may one day lead Dr Ehrsson, Dr Blanke, or someone else whom they have inspired, to having one of those Nobel medals hung around his own neck.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Epidemiology

Viral and virtual

Aug 23rd 2007
From The Economist print edition

A plague in a computer game may have lessons for the real world

READERS of *The Economist* may not necessarily be familiar with the “World of Warcraft”. For those who are not, it is a cod-medieval online game in which goblins and trolls, warriors and wizards, and so on act out the fantasies of some 9m players who spend the rest of their lives in the alternative world of paper and pay-packets.

A couple of years ago the game's owners, a Californian firm called Blizzard Entertainment, accidentally spiced things up by releasing a plague far more virulent than they had intended. It started in a sparsely inhabited area but soon found its way to the cities, where it wreaked havoc.

World of Warcraft

Resurrect that, suckers

So far, so cod-medieval. However the plague, and the reactions of the game's players to it, recently came to the attention of Eric Lofgren and Nina Fefferman, two epidemiologists at Rutgers University in New Jersey. Writing in this week's *Lancet Infectious Diseases*, they propose that games such as “World of Warcraft” might be used to work out how people will react when faced with situations no researcher can ethically introduce into the real world.

One surprise was that players put themselves into risky situations more often than epidemiologists allow for in their models. An unexpectedly large fraction of players acted altruistically to protect their weaker friends. On the other hand, a significant number seemed intent on infecting as many other characters as possible—behaviour reminiscent of a small minority of people with AIDS. There was also a lot of dangerous curiosity, as players who were offline when the plague began started logging on only in order to find out what was happening, and thus risked the deaths of their characters.

It was this curiosity, in particular, that surprised Dr Fefferman. It is not trivial to give up safety in order to satisfy curiosity, even in a game, though she acknowledges that the cost is not equivalent to that of suffering an illness in the real world.

Curiosity is not a behaviour included in current epidemiological models. Such models are effective at calculating the impact of behaviour on the spread of disease, but only—obviously—when the behaviour in question is known and understood. Identifying previously unrecognised forms of behaviour in the face of an epidemic could significantly improve the accuracy of the models.

That is where online worlds could help. If epidemiologists had access to a heavily populated game such as “World of Warcraft”, they could watch how players' behaviour changes in response to variations in the risks they face. With that in mind, Dr Fefferman has talked with Blizzard's programmers and she says they are willing to entertain the idea of incorporating diseases or other risks into their virtual world in order for her to study them.

How the players themselves would react to such a change is not known. Until it is, the game's owners might be expected to exercise an understandable caution. But if players could be persuaded to accept Dr Fefferman's watchful eye (and many might welcome the idea that they were helping medical science), other research suggests that the results could be realistic.

Jeremy Bailenson and Nick Yee, of Stanford University, have spent years studying online behaviour in other contexts. They say it mimics the real world with “stunning” accuracy. They caution, though, that there are important differences between virtual plagues and real ones.

The obvious difference is that only real plagues kill real people, though the permanent loss of a character can be a traumatic experience for an enthusiastic player, and one he will try hard to avoid. The other difference is that game-death is rarely permanent. Usually, resurrection is an available option—something that medical science in the real world cannot yet offer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Evolutionary psychology

Sex, shopping and thinking pink

Aug 23rd 2007
From The Economist print edition

The brains of men and women are, indeed, different

WOMEN really are better than men at shopping. And they really do prefer pink. And, surprisingly, it is possible that these facts are connected. The first conclusion was drawn by Joshua New of Yale University and his colleagues. The second was drawn by Anya Hurlbert and Yazhu Ling of Newcastle University in England. The connecting theme is that in the division of labour that forms the primordial bargain of human hunter-gatherer societies, it is the men who do the hunting and the women who do the gathering.

Blackberry-picking aside, urban humanity does little gathering from the wild these days, so Dr New decided to look at what seemed to him to be the nearest equivalent—shopping at a farmers' market. There is a fair amount of evidence that men are better than women at solving certain sorts of spatial problems, such as remembering the locations of topographical landmarks. Many researchers suggest such skills may have been important in the past for man-the-hunter, who needed to be able to find his way round the landscape. If that is the case, then woman-the-gatherer might have been expected to develop complementary skills not shown by males. And that, as he writes in this week's *Proceedings of the Royal Society*, is what Dr New found.

Dr New used the market to test two hypotheses. The first was that women remember the locations of food resources more accurately than men do. The second was that the more nutritionally valuable a resource is, the more accurately its location will be remembered.

To prove these conjectures he recruited 41 women and 45 men and led each of them individually on a merry dance around the chosen market. In the course of this peregrination, each participant visited six of the 90 food stalls in the market. At each of those stalls, participants were given a piece of food to eat. They were asked their preference for the taste of the food, how often they ate that food in normal life, how attractive they found the stall and how often they had made purchases from that stall in the past. After visiting all six stalls, they were taken to the centre of the market and asked to point toward those stalls, one at a time, using an arrow on a dial. In addition, they were asked to rate their own sense of direction.

In the pink

On average, women were 9° more accurate than men at pointing to each stall—a significant deviation if you have to walk some distance to get to a place. This was not because those women had more experience of visiting the market than the men had. Nor did the women rate themselves as having a better sense of direction—indeed the men rated their own navigating skills more highly.

Dr New suggests that these results show women are better than men at the particular task of relocating sources of food. That contrasts with the idea that men are better at navigation in general. In other words, women's minds are specialised for their ancestral task of gathering the sort of food that cannot run away.

That such food is in a different mental category from the one occupied by general landmarks was suggested by the answer to the second hypothesis. The higher the calorific value of the food sold by a stall, the more accurately Dr New's volunteers were able to point towards it. And that result applied to both sexes, though women still did better than men.

How much the participants liked the food did not have an effect on this accuracy. Indeed none of the secondary attributes of the food or stall in question (taste preference, the frequency of an item in a volunteer's normal diet, the appearance of the stall and how often a volunteer used that stall in daily life) were found to affect pointing accuracy. Only the calorific value of the item in question was relevant.

For their part Dr Hurlbert and Dr Ling, who report their study in *Current Biology*, used coloured patches flashing on a computer screen to find the preferences of their set of volunteers. These volunteers were men and women of British and Chinese origin who were in their early 20s.

Mostly, the two researchers found that people of different sexes and from different continents did not differ in their colour preferences. But there was one exception. Among both the British and the Chinese, women preferred reddish hues such as pink to greenish-blue ones. Among men it was the other way round.

Moreover, though anatomical sex is binary, mental “gender” is more pliable. To see how masculine or feminine the brains of their participants were, Dr Hurlbert and Dr Ling used what is known as the Bem Sex Role Inventory, which asks about personality traits more often associated with one sex than the other. This showed that the more feminine a brain was, regardless of the body it inhabited, the more it liked red and pink.

All this suggests a biological, rather than a cultural, explanation for colour preference. And Dr Hurlbert and Dr Ling have produced one. They suggest that their result may be connected with the fact that the colour of many fruits is at the red end of the spectrum. An evolved preference for red, pink and allied shades—particularly in contrast with green—could thus bring advantage to those who gather such things. And if they can also remember which tree (or stall) to go and visit next time, then so much the better.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

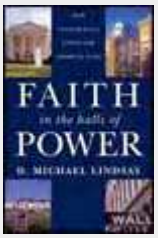
Evangelicals in America

The bond between God and power

Aug 23rd 2007
From The Economist print edition

Once looked down upon, American Evangelicals have now risen triumphantly to the heights

Faith in the Halls of Power: How Evangelicals Joined the American Elite
By D. Michael Lindsay



Oxford University Press; 352 pages; $24.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

Eyevine

Get article background

ON PALM SUNDAY 2002 George Bush and his entourage were flying home from El Salvador. Not wishing to miss church, they decided to improvise. Before long 40 worshippers were crammed into Air Force One's conference room. Condoleezza Rice, then National Security Adviser, led the worship, Karen Hughes, then Mr Bush's counsellor, gave the lesson and the service ended with everybody singing “Amazing Grace” and hugging each other.

In the first half of the 20th century, H.L. Mencken, a freethinker, dismissed Evangelicals as backwoods bigots and Richard Niebuhr, a theologian, said that theirs was a “religion of the dispossessed” (or, as one sociologist put it, of the “disadvantaged ranks of the stratification system”). Even as late as the 1990s there was a widespread perception that Evangelicals were poor, uneducated and easily led.

How did these supposedly ignorant buffoons arrive at the heart of the American power structure? Michael Lindsay, a sociologist at Rice University, who has interviewed 360 Evangelicals who have made it into the American elite, including two former presidents, answers this question with a rare degree of skill and learning. The past 30 years have seen a revolution. Evangelicals have almost drawn level with other religious groups in terms of wealth and education. And they have penetrated almost every area of the American establishment. Look at the top of many a professional tree and you can find an arboreal gathering of born-again Christians.

The role of Evangelicals in the Bush administration is particularly notable. But any European who thinks that they will simply disappear back into their caves when Mr Bush retires is in for a disappointment. Billy Graham has been a spiritual adviser to every president since Dwight Eisenhower. Bill Clinton cultivated Evangelical leaders, such as Bill Hybels, the founder of the Willow Creek Community Church in Illinois. He also mentioned Jesus more frequently in his public utterances than Mr Bush has, at least so far (5.1 times a year compared with 4.7). Over on Capitol Hill politicians of all parties attend prayer breakfasts and Bible classes.

Evangelicals have become much more visible in the boardroom as the South prospered and people became more willing to mingle work and faith. Prominent business figures such as John Tyson, a chicken magnate, and Wayne Huizinga, a serial entrepreneur, now talk openly about their faith. Evangelical businessmen form networks such as the Business Leadership and Spirituality Network. And a growing number of bosses are trying to incorporate Evangelical principles into the operation of their businesses. Chick-fil-A, a fast-food chain, refuses to open on Sundays and holds devotional services at its corporate headquarters every Monday. And Interstate Batteries, a Texan company, helps its employees to go on missions.

Evangelicals are even invading America's two greatest bastions of secularism—Hollywood and academia. Mel Gibson forced Hollywood to wake up to the power of the Evangelical dollar with his formidably successful “The Passion of the Christ”. Phil Anschutz, an Evangelical billionaire in Denver, finances Walden Media, which had huge success with two films: “The Chronicles of Narnia” and “Amazing Grace”. Evangelical colleges, such as Regent University and Biola, support state-of-the-art film studios. Act One, a Los Angeles programme, trains Christian screenwriters and executives (even if the notion of a Christian Hollywood executive seems a contradiction in terms).

Evangelicals have been purged from the ivory tower more thoroughly than any other religious group (and have often made up for the fact by denigrating the life of the mind). But even there, they are now on the march. Evangelical colleges have been expanding rapidly—they increased their enrolment by 60% between 1990 and 2002, a time when the general university population was static—and are trying to improve their academic profiles. Evangelical high-flyers have been making it into the Ivy League: in a recent year a quarter of Princeton's students were attending Evangelical meetings. The Pew Foundation has invested money in a cadre of first-rate Evangelical academics, and other patrons have created scholarships for Evangelical students. Mark Noll, one of America's finest historians, is also a proud Evangelical.

Mr Lindsay demonstrates that the arrival of the Evangelicals is changing both the American elite and the Evangelical movement itself. It is bringing the elite much closer to ordinary Americans (Peter Berger, another sociologist, once joked that, if Indians are the most religious people on the planet and Swedes the least religious, then America is a land of Indians governed by Swedes). But it is also creating new divisions within the Evangelical movement between a cosmopolitan establishment and the populist masses.

“Faith in the Halls of Power” is not a perfect book. Mr Lindsay's prose style suggests that he spends too much time reading his fellow sociologists. His failure to discuss the American armed services is bizarre given the number of Evangelicals there. But he has nonetheless written an impressive and admirably fair-minded book: anybody who wants to understand the nexus between God and power in modern America should start here.

Faith in the Halls of Power: How Evangelicals Joined the American Elite.
By D. Michael Lindsay.
Oxford University Press; 352 pages; $24.95 and £14.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Aviation

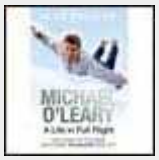
Snarling all the way to the bank

Aug 23rd 2007
From The Economist print edition

Get article background

THIS is a book that claims to be a biography but is in fact the story of a company, albeit an extraordinary and idiosyncratic one, that has taken its identity and controversial way of doing business from one man. Characteristically, Michael O'Leary, the boss of Ryanair, wanted nothing to do with the project. As far as Mr O'Leary is concerned: “Business books are bullshit and are usually written by wankers.”

Michael O'Leary: A Life in Full Flight
By Alan Ruddock



Penguin; 439 pages; £14.99

Buy it at Amazon.co.uk

Reuters

Fly with O'Leary but don't expect to enjoy it

Undeterred, Alan Ruddock, a journalist who was a university contemporary of Mr O'Leary's at Trinity College, Dublin, has written a very readable account of Ryanair's rise. His narrative takes the company from its early loss-making days in the late 1980s, when it fought for survival against the tactics of government-owned Aer Lingus, through its pioneering of no-frills flying in Europe's rapidly liberalising aviation market in the 1990s, to its status today as one of the most profitable carriers in the world. It is also the “least liked”, according to a poll taken last year by TripAdvisor, a travel website.

That is the paradox of Mr O'Leary's Ryanair. It is hugely successful. It has brought flying within the reach of people of the most limited means. It has helped to change the economic prospects of neglected parts of Europe by bringing passengers and their money to underused provincial airports. But at the same time Ryanair has become a byword for appalling customer service, misleading advertising claims and jeering rudeness towards anyone or anything that gets in its way.

To an unusual degree what is good and bad about both Ryanair and Mr O'Leary are opposite sides of the same coin. Sent to the airline in 1988 by his mentor Tony Ryan, the founder of Guinness Peat Aviation, the largest aircraft-leasing firm in the world before its dramatic downfall in 1992, Mr O'Leary was told to do whatever was necessary to make Ryanair profitable. Driven by a deal that would pay him 25% of any profits above £2m, he set about reducing costs with dogged determination.

By his own admission, Mr O'Leary had no great vision for Ryanair other than to make money. But an unstoppable business model soon began to evolve. If Ryanair could have lower costs than anyone else, it could also have lower prices. And if prices were low enough, it could fill seats on almost any route.

According to Mr Ruddock, that led Mr O'Leary to three further conclusions. The first was to increase

capacity relentlessly, even during downturns in a notoriously cyclical industry. The second was that there are all manner of ways of wringing money from the business other than selling tickets. Passengers were not only captive customers for food and drink but, from Ryanair.com, they could be sold car hire, insurance, hotel bookings and airport transfers. The third was that those marginal, out-of-the-way airports would pay Ryanair to bring them passengers.

What has made Ryanair so disliked, even by customers who continue to fly with it, is Mr O'Leary's tendency to rough up anyone who comes within range. Government ministers, union leaders and people running big airports can look after themselves even if they may be taken aback by Mr O'Leary's typically four-letter-word abuse. But the cavalier treatment of passengers left stranded by flight cancellations and the yelling of obscenities at people who, in sometimes tragic circumstances, make the mistake of asking for a refund have given Ryanair a deserved reputation for nastiness.

Mr O'Leary has never complained about being seen as a foul-mouthed bully. He maintains that there is no such thing as bad publicity and that the fights he picks are all intended to drive home the message that Ryanair's approach to costs is a war that has to be ruthlessly conducted on many fronts. However, even Mr O'Leary seems to recognise that behaviour that might have been just about tolerable when Ryanair was a scrappy upstart may not be appropriate now it is a 600lb gorilla. But Mr Ruddock suggests that he would rather quit Ryanair than change.

Since Mr O'Leary is worth £420m, according to this year's *Sunday Times* Rich List, he can certainly afford to go. Only when he does will we know whether a kinder, gentler Ryanair can be as profitable as his snarling creation. Sadly, the answer is probably no.

Michael O'Leary: A Life in Full Flight.
By Alan Ruddock.
Penguin; 439 pages; £14.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

High society

The American invaders

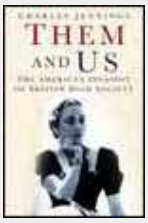
Aug 23rd 2007
From The Economist print edition

THE American heiresses, hostesses and millionaires who entertained, married into and bought castles from the English aristocracy from the 1870s to the 1930s epitomised “the breakdown of [Britain's] old aristocratic areas of influence; the loosening of rigidities...the unravelling of stuffiness”. Or so claims Charles Jennings. But, from the evidence of his own book, it could be argued that, on the contrary, they shored the whole thing up.

By the last quarter of the 19th century, the landed class, tied to its ancestral and unprofitable estates, was in trouble. Serious money was in stocks and shares. At the same time American wealth craved class and titles. Nothing could have been simpler. Someone estimated that by 1914, the daughters of America's plutocrats had enriched British nobility by over £40m (the equivalent of about $4.5 billion today).

Were these brides in a position to loosen anything? Charming, witty Consuelo Yznaga was treated by the profligate Duke of Manchester merely as his private bank and brood mare. The Duke of Marlborough's beautiful Consuelo Vanderbilt took to knitting through her husband's mealtime silences—though she did revolutionise the charitable distribution of leftovers by having sweet and savoury separated, not slopped together as formerly.

Them and Us: The American Invasion of British High Society
By Charles Jennings



Sutton Publishing; 307 pages, £20

Buy it at
Amazon.co.uk

But what of later arrivals? Charles Jennings charts America's discovery of England as the theatrical backdrop to its own version, or parody, of the aristocratic life. Thus, millionaires such as William Waldorf Astor, Andrew Carnegie, William Randolph Hearst and others invested heavily in heritage real estate—altering, extending, and decorating with eye-popping lavishness. But these places were not exactly models of unstuffiness. At Hever Castle, in Kent, Astor built a Tudor street for guests and retreated behind his moat (“walled-off Astor”, said a joker). Carnegie's friends were woken by bagpipes at eight sharp and given a rigid schedule of activities. Another American forbade his visitors to enter the library before him because he couldn't stand the sight of footprints on the passage carpet.

Of course there were jolly Americans too: the literary and opera-loving Lady Cunard, for example, whom Osbert Sitwell called “a foe to dullness”; or the bald and batty Mrs Corrigan, who gave cabaret parties and sprayed her curtains with ground glass to make them sparkle. But these people and their circles—who all revolved ultimately round the Prince of Wales and Wallis Simpson—were as likely to confirm as to undermine the inherent snobbery of the English: “every American”, wrote Harold Nicholson, who liked them well enough, “is more or less as vulgar as any other American.” One can see why Mr Jennings contrives to fit in Tallulah Bankhead, madcap comedian from Alabama, even though her popularity with all classes was more to the point than her liaisons with various rackety lords.

Mr Jennings is full of good stories, insights and ironies. But his social diary of names and titles, his snippets of lives and gossip, can pall, especially when some of his own turns of phrase (“the horrors of Lloyd George's ‘People’s Budget’”, for instance) seem to collude, ironically perhaps, but irritatingly nevertheless, with the prejudices of his characters. A greater sense of other kinds of buzz would have helped: more than a glance, for example, at Lady Cunard's truly subversive daughter, Nancy, whose love of a black American jazz pianist was met by her mother with authentically establishment iciness: “Does anyone know any negroes? You mean they go into people's houses?”

Them and Us: The American Invasion of British High Society.
By Charles Jennings.
Sutton Publishing; 307 pages, £20

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Science

Eliciting why blood gives life

Aug 23rd 2007
From The Economist print edition

FOR a Nobel laureate, the molecular biologist Max Perutz made a lot of mistakes. His science was strewn with assertions that were not supported by the sparse evidence he had gathered. No matter. He was eventually right about the important things—and gentleman enough to concede his errors.

With bloody-minded persistence, Perutz mastered the painstaking task of analysing images of haemoglobin, the component of blood that carries oxygen. This was no mean feat: a molecule of haemoglobin consists of thousands of atoms and, at the time, only simple structures of tens of atoms had been mapped. It was for this work that Perutz was awarded the Nobel prize in chemistry in 1962. But his triumphal announcement of the correct structure of haemoglobin was by no means his first solution to the problem: he had previously claimed all sorts of unlikely arrangements, backing down each time a colleague spotted a fatal flaw.

Even when he did finally hold the secret to why blood supports life, he did not piece together the evidence to produce the ultimate result. Indeed, Perutz was furious when a junior researcher saw how the final piece fitted and could not resist popping it into its slot, completing what Perutz viewed as his jigsaw puzzle. Nevertheless, it was Perutz who had gathered all the pieces and who ensured, in the end, that they were correctly assembled.

Max Perutz and the Secret of Life
By Georgina Ferry

To be published in America by Cold Spring Harbor Laboratory Press in December
Chatto & Windus; 352 pages; £25.

Buy it at
Amazon.com
Amazon.co.uk

Perutz was long the outsider. Of Jewish descent, he was a lapsed Catholic by religion. He left his native Austria in 1936, two years before Hitler annexed it. The outbreak of war saw him expelled to Canada as an enemy alien. On returning to Cambridge, he was not welcomed by his college. It was only after he won the Nobel prize that he felt accepted as an Englishman, despite having been naturalised as a British subject 20 years earlier.

As a scientist, too, Perutz was always on the fringe. His field of endeavour, X-ray crystallography, was neither physics nor maths nor chemistry nor biology but a combination of these. As often happens to researchers working in interdisciplinary areas of science, his progress was impeded by an establishment that sought to promote existing subjects. He lived from grant to grant, each lasting a matter of months. Nevertheless, he managed to establish the unit in which James Watson and Francis Crick elucidated the double helix structure of DNA. A decade later, a whole institute was established under him.

Georgina Ferry's biography captures not only the scientific advances made by Perutz but also his curious personal qualities. A skinny, sickly and, for much of his life, skint individual, Perutz is an unlikely hero. He was demanding—his diet required him to eat black bananas, even in February—and he was unselfconscious in ensuring that his elaborate needs were met. He was also naive in insisting that scientific reasoning would trump political thought and religious teaching.

Ms Ferry portrays his foibles sympathetically. Perutz used to complain that, although he was famous, few people knew what it was he had achieved. By combining scientific with personal anecdotes, her book goes a good way towards redressing that balance.

Max Perutz and the Secret of Life.
By Georgina Ferry.
Chatto & Windus; 352 pages; £25.
To be published in America by Cold Spring Harbor Laboratory Press in December

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

War in Afghanistan

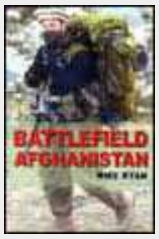
Fighting the Tali-tubbies

Aug 23rd 2007
From The Economist print edition

IT WAS an intervention designed to prop up Afghanistan's feeble government. Where possible, the foreign troops would operate alongside Afghan soldiers and police. After three years, they would withdraw. But, in the event, the Soviet occupation of Afghanistan lasted nine years, cost the lives of at least 15,000 Soviet soldiers and failed to prevent the government's collapse. What risk is there of the latest interventions in Afghanistan—by NATO and a separate American-led force—also ending in failure?

The answer will depend on how you measure success. Unlike the Soviet Union, NATO is propping up a reasonably popular government. Since 2001 nearly 5m Afghan refugees have returned to the country. With their industry and lots of aid money, the economy has been reborn: growing at 14% last year. In part, this is because the Western powers have been more benevolent than the Russians were. It is also because, after a quarter of a century of ruinous war, Afghans are more willing to take help from any hand. Six years into the rebuilding effort, Afghanistan remains more broken than it was in 1979, when the Soviet Union invaded. It will be many years before it can stand alone.

Battlefield Afghanistan
By Mike Ryan



Spellmount; 192 pages; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Meanwhile, worrying similarities between the Soviet experience of Afghanistan and NATO's are mounting. Fighting between soldiers and insurgents in southern Afghanistan claimed more than 4,400 lives last year, including over 1,000 civilians, according to Human Rights Watch. This year the proportion of civilian deaths has risen to around half the total. Collectively called the Taliban, the militants are in fact motivated by different forces: religious, ethnic and financial. Cash from a resurgent opium trade is one incentive for insurgents, just as CIA greenbacks were in the time of the anti-Soviet *jihad*.

NATO's leaders will not like the comparison. But they should know that their troops often make it, as Mike Ryan records in “Battlefield Afghanistan”. The soldiers note, for example, that the Taliban use the same ambush sites as their anti-Soviet forebears did—and, no doubt, as did those 19th-century Pushtun tribesmen who resisted British imperialists.

A reservist in the British army, Mr Ryan clearly has the trust of plenty of soldiers. He reports their experiences under fire in southern Helmand province, where 5,000 Britons are based. Again in time-worn style, they are often undermanned and ill-supplied. Soldiers manning a remote outpost in northern Helmand have been forced to go foraging for food between attacks by the Taliban—or the Tali-tubbies, as these British squaddies call them.

At times Mr Ryan can sound a little too soldierly. Sentences such as “he struck me as a street-wise hombre who clearly knew his business” (his description of a CIA operative) work better in an army cookhouse than on a published page. Indeed, there will be many better books written on Afghanistan's latest fray. Yet Mr Ryan does impart a typical British soldier's sense of it: tough, sometimes bloody but, compared with Iraq at least, also sometimes fun.

Battlefield Afghanistan.
By Mike Ryan.
Spellmount; 192 pages; £12.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

German theatre: “Wallenstein”

If you like very long plays

Aug 23rd 2007
From The Economist print edition

This will grip you from lunch until midnight

PETER STEIN is a maverick. Once considered the doyen of serious German drama, he now shuns his native country's heavily subsidised theatres and works alone. Nearing 70, he lives in a Tuscan farmhouse with his actress wife, Maddalena Crippa, and plans many of his productions from there.

Mr Stein specialises in extremely long shows. In 1980 he opened a new theatre in Berlin with a production of Aeschylus's huge trilogy, “The Oresteia”. He produced the same three plays in Moscow, a performance in Russian that was then staged at the Edinburgh Festival in 1994 at what is normally an ice rink. In 2000 he mounted a 21-hour version of Goethe's two-part “Faust” at Hanover's Expo. Some critics considered this to be a definitive performance of “Faust”; others found its attention to realistic detail to be too literal and even unimaginative.

Charisma beneath the straggly hair

Similar demands on an audience's attention are now being made with a ten-hour staging in a converted brewery in south-east Berlin of Friedrich Schiller's “Wallenstein”, a play in three parts. Mr Stein's production, which was shown earlier this summer and reopens after a break on August 25th, is gripping, sweeping along with epic verve.

It begins with soldiers, their every hat, sash and sword carefully crafted, carousing as they debate their leader, Albrecht von Wallenstein, who is fighting for the Catholic emperor, Ferdinand II, in the Thirty Years' War. Parts two and three tell the stories of General Octavio Piccolomini's devotion to the emperor, his son Max's love for Wallenstein's daughter, Thekla, and finally Wallenstein's embrace of the Protestant cause and assassination. It all unfolds on a vast stage, with screens creating echoing chambers and corridors.

“Wallenstein” was popular in the 1960s, says Mr Stein, but had more or less disappeared by the decade's end. Association with Prussian militarism, let alone Hitler, made it unfashionable. If it was staged at all, it was usually in a shortened form which, Mr Stein claims, reduced it to “a hollow-sounding historical drama”. The play, he says, is about an intelligent man able to do something about his destiny. “He never fights in the drama. He plots, tries, but fails, to get the politics right and is full of self-doubt.”

The part of Wallenstein is played by Klaus Maria Brandauer, an Austrian actor who was the lead in István Szabó's film “Mephisto” and played Bror Blixen in “Out of Africa”. Mr Brandauer, surrounded by excellent performances from Peter Fitz, Jürgen Holtz and Friederike Becht, is perhaps one of the less remarkable aspects of the production. His charisma can be glimpsed beneath his lumbering gait and straggly hair, but his delivery is a bit monotone. Without giving any indication that he was unhappy with Mr Brandauer, Mr Stein pointed out that the actor “was in another league and, as a film star, cost three times what a normal actor does. But we met and instantly he wanted to do it.”

With complete confidence in the structure of the play, Mr Stein sees no reason “to resort to helicopters or such stupid tricks”. His rigorous adherence to the text, his conductor's sense of rhythm and tempo, and his conviction that things on stage can be magnificent and still full of meaning are Mr Stein's trademarks. He insists on remaining an outsider but this performance proves him to be one of Germany's most potent theatrical conjurors.

“Wallenstein”, at the Kindl-Brauerei, Berlin, will be shown 13 times between August 25th and October 7th.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Brooke Astor and Leona Helmsley

Aug 23rd 2007
From The Economist print edition

Eyevine

Brooke Astor and Leona Helmsley, grandes dames of New York, died on August 13th and 20th respectively, aged 105 and 87

THE concept of *richesse oblige* has various dimensions. The bottom line is that those who have come into oodles of money should give some of it back; the second-to-bottom line is that they should cut a certain style while doing so. Both Brooke Astor and Leona Helmsley, who died within a few days of each other, gave millions of dollars away. And their similarities ended there.

Mrs Astor was as small, delicate and fine as a Meissen cup, her tailoring exquisite and her jewels unobtrusive. Mrs Helmsley, though not large, favoured loud trouser suits and chunky diamond clips, with her mouth made big and cruel by scarlet lipstick. Mrs Astor set great store by good manners, civility, kind remarks and the careful handling of umbrellas; Mrs Helmsley believed in loud words and elbows. Mrs Astor had dogs as well-behaved as herself, silky and smooth-haired to pose for photographers or to have their portraits in her 19th-century collection on the staircase of Holly Hill, her weekend retreat. Mrs Helmsley had a Maltese bitch called Trouble, tied with pink ribbons and small enough to stuff in a purse, who sniffed at diners' legs in her restaurants and nipped their heels until they bled.

The Astor money, more than $120m by the time it was Brooke's to disburse, was old, from New York land and the fur trade. The Helmsley money, $5 billion by the time Leona got her hands on it, was pretty new, from property speculation. Both fortunes came from late third marriages to cunning husbands. But whereas Mrs Astor, aside from writing features for *House & Garden*, merely let the markets increase her pile and relished spending the capital (something, she admitted, that John Jacob Astor would have thought as outrageous as dancing naked in the street), Mrs Helmsley worked like a dragon to build up and expand her husband Harry's hotel empire. As a Manhattan hatter's daughter with several competitive siblings, she was used to graft and struggle. Mrs Astor, a solitary and dreamy child who had come by money almost magically, treated it like fairy dust to the end of her days.

Both, in their wildly different ways, were peremptory. Well into old age, Mrs Astor wore out the staffers of the Astor Foundation with her insistence on seeing every group and project that was asking her for money, and visiting them frequently to check that things were done as required. A run-down section of 130th Street in Harlem, Astor Row, had to have its porches and decorative brackets immaculately restored; a start-up furniture service for the poor had to include tea-cups and saucers. Meanwhile, at Helmsley hotels across Manhattan, underneath giant portraits of the “Queen” herself, quaking bellhops with huge armloads of laundry submitted to the scarlet, pecking fingernails and the icy tiara smile. “I won't stand for skimpy towels; why should you?” cried Mrs Helmsley's adverts in the *New York Times*.

Gloves and paper cups

The arrogance of big money, Mrs Astor wrote once, “is one of the most unappealing of characteristics”. Mrs Helmsley, though fun to her friends, was arrogance personified: “Rhymes with rich”, was *Newsweek*'s caption for her portrait on its cover. “We don't pay taxes,” she was said to have told a housekeeper once; “only the little people pay taxes.” Mrs Astor, a gentle soul, was upset when her first father-in-law, a colonel, yelled at his secretaries. Mrs Helmsley believed staff existed to be barked at, slapped and called fags if appropriate; two of them sued her for firing them because they were gay. On visits to underprivileged areas Mrs Astor, gloved and immaculate because this was what the ordinary person expected of the rich, would happily sip from a paper cup and praise the hot-dog mustard on her paper plate. At the sight of a paper-cup-carrier in any of her reception areas, Mrs Helmsley would get her doormen to throw the offender out.

Vulgar showiness was also seldom seen in the Astor household. True, the glasses, silver and finger bowls bore the Astor initials or the Astor crest, but it was not half as obvious as the “H” on Leona's plastic soap-compacts. Mrs Astor could sport massed sapphires if one-upmanship seemed called for; but she owned only two country houses, not several, and her birthday was never marked, as Leona's once was, by a display of red, white and blue lights on the Helmsley-owned Empire State Building. Vulgarity led to trouble; which was why Leona, accused of “naked greed” by the judge, spent 18 months in Camp Fed in 1992-94 for tax evasion, when it was fairly clear that her real crime was to be both abrasive and rich.

New York gained hugely from both women. Mrs Astor gave to the Metropolitan Museum of Art, Rockefeller University, the Bronx Zoo and, her special favourite, the New York Public Library; Mrs Helmsley gave to New York-Presbyterian Hospital, the Weill Cornell Medical College and, her spell in prison evidently softening her, to poor children and hurricane victims. Both ended sadly, left alone with their dogs and the ghosts of their husbands in dust-draped city apartments or empty summer homes. But in the memory of most New Yorkers one was a saint and the other a sinner. *Richesse oblige*.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 23rd 2007
From The Economist print edition

In a bid to stabilise **money markets**, the Federal Reserve cut its discount rate, the charge it makes for emergency loans to banks, from 6.25% to 5.75% on August 17th.

In a separate statement, the **Fed's rate-setters** said the downside risks to economic growth had "increased appreciably" and that they were "prepared to act as needed" to prevent financial turmoil from hurting America's economy. Forty-five out of 63 economists polled by Reuters this week said they expect the Fed to cut its main policy rate by at least a quarter of a percentage point at—or even before—its next scheduled policy meeting on September 18th.

China's central bank unexpectedly raised its benchmark interest rate on loans from 6.84% to 7.02%. Deposit rates rose from 3.33% to 3.6%, a bigger increase. The changes came a week after official figures showed consumer-price inflation had jumped to a ten-year high of 5.6% in July.

The Bank of **Japan** kept its key interest rate at 0.5% on August 23rd.

Oil prices weakened on fears that financial turmoil might hurt the global economy. The price of a barrel of the benchmark Brent crude, which had briefly topped $77 last month, fell to $68.70 on August 22nd.

In **Canada**, consumer prices rose by 0.1% in July and by 2.2% from a year earlier.

GDP in **Mexico** rose by 2.8% in the year to the second quarter.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Output, prices and jobs

Aug 23rd 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.8 Q2	+3.4	+2.0	+2.6	+1.4 Jul	+2.4 Jul	+4.1	+2.8	4.6 Jul
Japan	+2.3 Q2	+0.5	+2.6	+2.3	+1.1 Jun	−0.2 Jun	+0.5	nil	3.7 Jun
China	+11.9 Q2	na	+10.5	+9.6	+18.0 Jul	+5.6 Jul	+1.0	+3.0	9.5 2006
Britain	+3.0 Q2	+3.3	+2.8	+2.3	+0.8 Jun	+1.9 Jul**	+2.4	+2.4	5.4 Jun††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	−0.1 May	+2.2 Jul	+2.3	+2.4	6.0 Jul
Euro area	+2.5 Q2	+1.2	+2.7	+2.3	+2.3 Jun	+1.8 Jul	+2.4	+2.0	6.9 Jun
Austria	+3.8 Q2	+4.0	+3.0	+2.7	+7.7 May	+2.1 Jul	+1.8	+1.9	4.3 Jul
Belgium	+2.9 Q2	+2.4	+2.7	+2.4	+1.9 Jun	+1.4 Jul	+1.6	+1.8	11.7 Jul‡‡
France	+1.3 Q2	+1.3	+2.0	+2.2	−0.8 Jun	+1.1 Jul	+1.9	+1.5	8.0 Jun
Germany	+2.5 Q2	+1.0	+2.8	+2.4	+4.9 Jun	+1.9 Jul	+1.9	+1.9	9.0 Jul
Greece	+4.2 Q2	na	+3.7	+3.2	+1.3 Jun	+2.5 Jul	+3.8	+2.6	7.7 May
Italy	+1.8 Q2	+0.5	+2.0	+1.7	−0.1 Jun	+1.6 Jul	+2.2	+1.9	6.2 Q1
Netherlands	+2.4 Q2	+0.6	+2.8	+2.6	+1.1 Jun	+1.5 Jul	+1.6	+1.9	4.7 Jul††
Spain	+4.0 Q2	+3.2	+3.7	+2.7	+2.0 Jun	+2.2 Jul	+4.0	+2.7	8.0 Jul
Czech Republic	+6.1 Q1	+6.1	+5.2	+4.0	+6.9 Jun	+2.3 Jul	+2.9	+2.6	6.4 Jul
Denmark	+2.3 Q1	+2.2	+2.1	+2.0	−2.5 Jun	+1.2 Jul	+2.0	+1.9	3.5 Jun
Hungary	+1.4 Q2	+0.8	+2.7	+3.0	+8.9 Jun	+8.4 Jul	+3.0	+7.3	7.0 Jun††
Norway	+2.8 Q1	+2.9	+2.7	+2.5	−4.0 Jun	+0.4 Jul	+2.2	+0.8	2.5 Jun††
Poland	+7.4 Q1	na	+6.3	+5.1	+10.4 Jul	+2.3 Jul	+1.1	+2.1	12.4 Jun‡‡
Russia	+7.9 Q1	na	+6.7	+6.2	+7.8 Jul	+8.8 Jul	+9.6	+7.8	5.8 Jul‡‡
Sweden	+3.6 Q2	+3.9	+3.5	+3.2	+5.0 Jun	+1.9 Jul	+1.7	+2.1	4.9 Jun‡‡
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.7 Jul	+1.4	+0.7	2.5 Jul‡‡
Turkey	+6.8 Q1	na	+6.0	+5.2	+1.8 Jun	+6.9 Jul	+11.7	+9.0	8.9 Q2‡‡
Australia	+3.8 Q1	+6.6	+3.6	+3.3	+5.5 Q1	+2.1 Q2	+4.0	+2.3	4.3 Jul
Hong Kong	+6.9 Q2	+8.2	+5.9	+5.2	−1.5 Q1	+1.5 Jul	+2.3	+1.9	4.1 Jul††
India	+9.1 Q1	na	+8.4	+7.9	+9.8 Jun	+5.7 Jun	+7.7	+5.8	7.6 2006
Indonesia	+6.3 Q2	na	+6.3	+6.2	+11.8 May	+6.1 Jul	+15.2	+5.8	9.8 Feb
Malaysia	+5.3 Q1	na	+5.9	+5.7	+0.5 Jun	+1.6 Jul	+4.1	+2.1	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.4	+5.8	+7.1 May	+6.4 Jul	+7.6	+6.5	na
Singapore	+8.6 Q2	+14.0	+6.2	+4.4	−7.4 Jun	+2.6 Jul	+1.1	+0.9	2.4 Q2
South Korea	+4.9 Q2	+7.0	+4.7	+5.1	+7.6 Jun	+2.5 Jul	+2.4	+2.4	3.4 Jul
Taiwan	+4.2 Q1	na	+4.4	+4.6	+7.5 Jun	−0.3 Jul	+0.8	+1.2	3.9 Jul
Thailand	+4.3 Q1	+4.9	+4.2	+4.9	+4.9 Jun	+1.7 Jul	+4.4	+2.6	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.3	+5.5	+0.3 Jun	+8.6 Jul	+10.6	+9.1	8.5 Q2‡‡
Brazil	+4.3 Q1	+3.2	+4.3	+3.8	+6.6 Jun	+3.7 Jul	+4.0	+3.5	9.7 Jun‡‡
Chile	+5.8 Q1	na	+5.9	+5.3	+6.7 Jun	+3.8 Jul	+3.8	+3.0	6.9 Jun†††‡‡
Colombia	+8.1 Q1	+10.3	+6.4	+5.1	+11.9 May	+5.8 Jul	+4.3	+5.7	11.1 Jun‡‡
Mexico	+2.8 Q2	+5.3	+3.1	+3.4	+0.1 Jun	+4.1 Jul	+3.1	+3.9	3.3 Jun‡‡
Venezuela	+8.9 Q2	na	+5.9	+4.0	+9.0 May	+17.2 Jul	+13.5	+18.1	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.2	+10.5 2006	+8.0 Jul	+8.4	+8.4	9.0 Q4‡‡
Israel	+4.4 Q2	+6.1	+5.1	+4.5	+1.3 Jun	+0.3 Jul	+2.4	+0.3	7.6 Q2
Saudi Arabia	+4.3 2006§	na	+4.0	+5.7	na	+3.0 Jun	+1.8	+3.0	na
South Africa	+5.4 Q1	+4.7	+4.8	+5.2	+2.0 Jun	+7.0 Jun	+4.9	+5.8	25.5 Sep‡‡
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	+7.3 Q2	na	+9.4	+5.8	+4.5 Jun	+6.4 Jul	+4.5	+5.5	5.1 Jun
Finland	+5.4 Q1	+3.4	+3.6	+2.6	+0.3 Jun	+2.6 Jul	+1.9	+1.4	6.6 Jun
Iceland	−0.1 Q1	−3.6	+0.8	+1.8	+7.6 2006	+3.4 Aug	+8.6	+4.6	0.9 Jul‡‡
Ireland	+7.5 Q1	+20.1	+4.8	+3.4	+0.1 Jun	+5.0 Jul	+4.2	+4.5	4.6 Jul
Latvia	+11.3 Q2	na	+9.6	+7.5	+1.2 Jun	+9.5 Jul	+7.0	+7.9	5.7 Jun
Lithuania	+8.0 Q2	nil	+7.8	+6.9	na	+5.1 Jul	+4.4	+4.6	2.8 Jul
Luxembourg	+6.2 Q1	+6.6	+5.2	+4.3	+1.6 Apr	+1.9 Jul	+2.9	+2.2	4.1 Jun‡‡
New Zealand	+2.7 Q1	+2.5	+3.9	+3.1	nil Q1	+2.0 Q2	+4.0	+2.4	3.6 Q2
Peru	+6.7 Jun	na	+7.1	+5.5	+12.3 May	+2.2 Jul	+1.5	+1.2	7.6 Jun‡‡
Philippines	+6.9 Q1	+10.3	+6.0	+5.6	−7.1 May	+2.6 Jul	+6.4	+2.9	7.4 Q2‡‡
Portugal	+1.6 Q2	+1.7	+1.8	+2.1	+0.6 Jun	+2.4 Jul	+3.0	+2.3	7.9 Q2‡‡
Slovakia	+9.2 Q2	nil	+8.0	+6.0	+12.0 Jun	+2.3 Jul	+5.0	+2.7	8.3 Jul
Slovenia	+7.2 Q1	na	+5.6	+4.6	+6.0 Jun	+3.8 Jul	+1.9	+3.0	7.5 Jun‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 3.8% in Jul. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity-price index

Aug 23rd 2007
From The Economist print edition

The Economist commodity-price index

2000=100

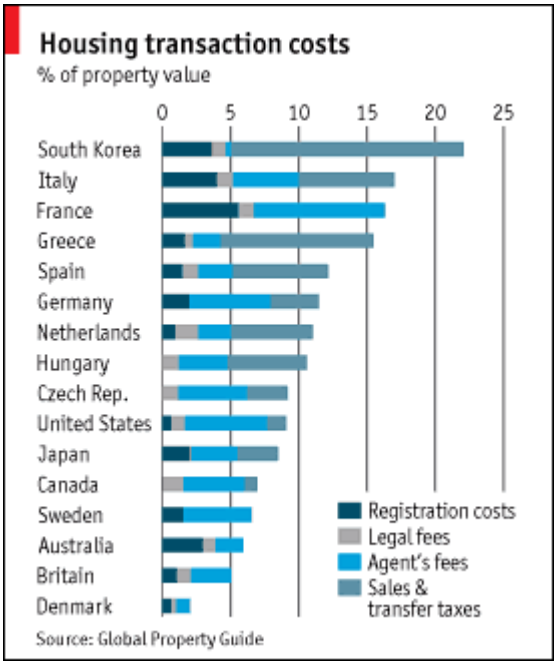
	Aug 14th	Aug 21st*	% change on one month	% change on one year
Dollar index				
All items	202.8	195.1	–6.0	+12.6
Food	176.5	173.5	+0.7	+30.2
Industrials				
All	236.7	223.0	–11.9	–0.8
Nfa†	161.4	158.1	–2.5	+5.3
Metals	277.8	258.5	–14.7	–2.7
Sterling index				
All items	153.7	149.2	–2.3	+7.3
Euro index				
All items	138.2	133.8	–3.7	+7.0
Gold				
$ per oz	668.80	658.00	–3.8	+5.7
West Texas Intermediate				
$ per barrel	72.39	69.50	–5.4	–4.2

*Provisional †Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Housing transaction costs

Aug 23rd 2007
From The Economist print edition



The cost to foreigners of property dealing is particularly high in South Korea, according to the Global Property Guide. The guide calculates the total costs of buying and selling a condominium in a country's principal city as a share of the property's price. In most countries, only new properties are subject to value-added taxes (VAT). In South Korea, however, all property purchases attract VAT at 10%. Britain is among the lowest-cost countries for trading properties. The bulk of the 5% turnover costs for a property worth $250,000 goes to estate agents. Countries whose legal systems have English or Scandinavian origins have low transaction costs. French legal origin countries are the costliest for dealers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates, budget balances and interest rates

Aug 23rd 2007
From The Economist print edition

Infographics

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Aug 22nd	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−823.4 Jun	−803.4 Q1	−5.8	–	–	−1.3	5.24	4.63
Japan	+94.9 Jun	+192.6 Jun	+4.4	115	117	−2.9	0.68	1.60
China	+238.7 Jul	+249.9 2006	+10.7	7.60	7.97	−0.7	3.25	4.28
Britain	−155.8 Jun	−93.0 Q1	−3.2	0.50	0.53	−2.7	6.57	5.09
Canada	+50.0 Jun	+18.5 Q1	+1.6	1.06	1.11	0.6	4.16	4.39
Euro area	+24.1 Jun	−1.0 May	+0.1	0.74	0.78	−0.7	4.68	4.24
Austria	+1.0 May	+13.2 Q1	+3.0	0.74	0.78	−0.8	4.66	4.40
Belgium	+18.1 Jun	+12.5 Mar	+2.2	0.74	0.78	−0.1	4.73	4.41
France	−38.0 Jun	+15.7 Jun	−1.0	0.74	0.78	−2.5	4.66	4.37
Germany	+239.9 Jun	+182.2 Jun	+4.9	0.74	0.78	0.5	4.66	4.29
Greece	−47.4 May	−34.2 Jun	−8.4	0.74	0.78	−2.4	4.66	4.56
Italy	−21.2 May	−49.8 May	−2.3	0.74	0.78	−2.6	4.66	4.59
Netherlands	+47.1 Jun	+53.5 Q2	+7.7	0.74	0.78	0.6	4.66	4.37
Spain	−119.6 May	−119.7 May	−8.8	0.74	0.78	2.1	4.66	4.39
Czech Republic	+2.9 Jun	−5.0 Jun	−4.1	20.5	22.0	−4.2	3.28	4.37
Denmark	+5.4 Jun	+5.3 Jun	+2.1	5.51	5.83	3.8	4.65	4.39
Hungary	−2.2 Jun	−6.2 Q1	−5.2	191	216	−6.5	7.73	6.60
Norway	+54.0 Jul	+57.3 Q1	+14.9	5.92	6.29	16.8	5.20	4.81
Poland	−7.5 May	−11.5 Jun	−2.7	2.84	3.06	−2.4	4.96	4.54
Russia	+126.9 Jun	+77.7 Q2	+6.8	25.8	26.8	3.0	10.00	6.21
Sweden	+19.5 Jun	+29.8 Q1	+6.8	6.95	7.18	2.4	3.53	4.21
Switzerland	+11.1 Jul	+102.1 Q1	+16.1	1.21	1.23	0.3	2.87	2.83
Turkey	−54.1 Jun	−31.7 Jun	−6.2	1.33	1.47	−2.9	18.86	6.65§
Australia	−10.9 Jun	−43.8 Q1	−5.4	1.24	1.31	1.3	6.85	5.86
Hong Kong	−19.6 Jun	+23.8 Q1	+10.1	7.81	7.78	1.8	4.77	4.24
India	−67.7 Jun	−9.6 Q1	−1.4	40.9	46.5	−3.3	6.71	8.26
Indonesia	+42.1 Jun	+10.3 Q1	+2.2	9,395	9,100	−1.6	8.17	7.25§
Malaysia	+28.9 Jun	+25.9 Q1	+14.3	3.48	3.68	−3.1	3.62	5.06§
Pakistan	−13.4 Jul	−6.8 Q1	−4.1	60.6	60.4	−4.6	9.83	9.25§
Singapore	+37.0 Jul	+41.6 Q2	+24.0	1.52	1.57	0.3	2.77	2.79
South Korea	+19.4 Jul	+5.2 Jun	+0.3	944	956	0.5	5.25	5.29
Taiwan	+12.3 Jul	+28.3 Q2	+6.1	33.0	32.8	−2.0	2.55	2.42
Thailand	+9.3 Jun	+11.1 Jun	+2.3	34.5	37.6	−1.9	3.55	4.29
Argentina	+11.2 Jun	+7.8 Q1	+3.4	3.16	3.09	1.3	11.94	na
Brazil	+45.0 Jul	+15.0 Jun	+0.8	2.01	2.13	−2.4	11.43	6.16§
Chile	+25.3 Jul	+7.1 Q1	+5.2	522	533	6.6	5.52	5.32§
Colombia	−0.9 Apr	−4.1 Q1	−3.0	2,129	2,369	−0.8	8.44	6.49§
Mexico	−11.8 Jun	−5.5 Q1	−1.0	11.1	10.8	0.1	7.20	7.91
Venezuela	+28.2 Q1	+20.4 Q2	+9.8	2,147	2,659	−3.7	11.14	6.55§
Egypt	−14.1 Q1	+3.1 Q1	+1.2	5.68	5.74	−5.6	7.60	5.50§
Israel	−8.5 Jul	+8.1 Q1	+3.5	4.16	4.37	−1.1	4.45	5.82
Saudi Arabia	+146.6 2006	+98.9 2006	+25.8	3.75	3.75	19.4	5.03	na
South Africa	−9.3 Jun	−16.6 Q1	−6.2	7.25	7.10	0.5	10.50	8.50
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.1 May	−3.1 Apr	−16.5	11.6	12.2	1.7	5.00	na
Finland	+12.3 Jun	+12.1 Jun	+6.6	0.74	0.78	4.1	4.58	4.37
Iceland	−1.8 Jul	−4.0 Q1	−16.8	65.1	70.2	3.7	14.13	na
Ireland	+34.9 May	−10.6 Q1	−5.0	0.74	0.78	1.0	4.66	4.38
Latvia	−6.7 Jun	−5.7 Jun	−22.2	0.52	0.54	nil	8.04	na
Lithuania	−6.4 Jun	−4.2 Jun	−13.0	2.55	2.70	−0.5	5.28	na
Luxembourg	−5.5 May	+4.5 Q1	na	0.74	0.78	0.3	4.66	na
New Zealand	−4.2 Jun	−9.1 Q1	−10.7	1.43	1.56	4.8	7.20	6.22
Peru	+9.0 Jun	+2.7 Q1	+1.9	3.17	3.23	0.4	4.75	na
Philippines	−3.3 May	+5.7 Mar	+5.1	46.5	51.3	−1.1	6.94	na
Portugal	−23.3 May	−17.8 May	−7.9	0.74	0.78	−3.3	4.66	4.54
Slovakia	−2.1 Jun	−3.5 Apr	−4.5	25.0	29.4	−2.9	4.15	4.55
Slovenia	−2.4 Jun	−1.6 May	−2.6	0.74	0.78	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Markets

Aug 23rd 2007
From The Economist print edition

Infographics

Markets

	Index Aug 22nd	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,236.1	+2.9	+6.2	+6.2
United States (S&P 500)	1,464.1	+4.1	+3.2	+3.2
United States (NAScomp)	2,552.8	+3.8	+5.7	+5.7
Japan (Nikkei 225)	15,900.6	-3.5	-7.7	-4.4
Japan (Topix)	1,544.9	-3.1	-8.1	-4.8
China (SSEA)	5,228.8	+2.3	+85.7	+90.8
China (SSEB, $ terms)	314.3	-2.0	+135.2	+141.5
Britain (FTSE 100)	6,196.0	+1.4	-0.4	+1.3
Canada (S&P TSX)	13,463.1	+3.2	+4.3	+14.3
Euro area (FTSE Euro 100)	1,323.4	+0.9	+3.5	+6.1
Euro area (DJ STOXX 50)	4,226.5	+1.0	+2.6	+5.1
Austria (ATX)	4,435.6	-2.1	-0.6	+1.9
Belgium (Bel 20)	4,171.0	+1.4	-5.0	-2.6
France (CAC 40)	5,518.2	+1.4	-0.4	+2.1
Germany (DAX)*	7,500.5	+0.7	+13.7	+16.5
Greece (Athex Comp)	4,753.6	+1.4	+8.2	+10.9
Italy (S&P/MIB)	39,590.0	+0.9	-4.5	-2.1
Netherlands (AEX)	514.3	+1.6	+3.8	+6.4
Spain (Madrid SE)	1,579.2	-1.2	+1.6	+4.1
Czech Republic (PX)	1,734.0	-0.9	+9.1	+11.1
Denmark (OMXCB)	469.3	+3.0	+10.7	+13.6
Hungary (BUX)	26,325.9	-2.6	+6.0	+5.6
Norway (OSEAX)	533.8	+0.4	+6.3	+11.8
Poland (WIG)	58,592.8	-0.9	+16.2	+18.9
Russia (RTS, $ terms)	1,853.8	-1.8	-5.5	-3.5
Sweden (Aff.Gen)	380.5	+1.1	+4.2	+2.6
Switzerland (SMI)	8,714.6	+0.6	-0.8	+0.3
Turkey (ISE)	46,882.0	-1.7	+19.8	+27.3
Australia (All Ord.)	5,997.4	+3.4	+6.3	+8.9
Hong Kong (Hang Seng)	22,346.9	+4.5	+11.9	+11.5
India (BSE)	14,248.7	-5.0	+3.3	+11.9
Indonesia (JSX)	2,063.0	+1.7	+14.3	+9.4
Malaysia (KLSE)	1,255.4	+0.3	+14.5	+16.0
Pakistan (KSE)	12,320.6	-3.6	+22.7	+23.3
Singapore (STI)	3,321.5	+1.5	+11.2	+12.0
South Korea (KOSPI)	1,759.5	-3.2	+22.7	+20.8
Taiwan (TWI)	8,493.5	-1.2	+8.6	+7.3
Thailand (SET)	784.4	+1.4	+15.4	+21.0
Argentina (MERV)	2,008.5	+4.4	-3.9	-6.9
Brazil (BVSP)	51,744.0	+5.0	+16.3	+23.3
Chile (IGPA)	14,370.0	+3.1	+16.1	+18.4
Colombia (IGBC)	10,408.0	-0.6	-6.7	-1.9
Mexico (IPC)	29,269.3	+4.0	+10.7	+8.2
Venezuela (IBC)	40,365.4	-1.4	-22.7	+20.3
Egypt (Hermes)	67,307.9	-5.9	+9.8	+10.5
Israel (TA-100)	1,027.7	-1.6	+11.5	+12.9
Saudi Arabia (Tadawul)	8,089.1	+2.4	+2.0	+1.9
South Africa (JSE AS)	27,241.1	+0.6	+9.3	+6.3
Europe (FTSEurofirst 300)	1,505.4	+0.9	+1.5	+4.0
World, dev'd (MSCI)	1,531.8	+2.5	+3.2	+3.2
Emerging markets (MSCI)	1,017.4	+0.3	+11.5	+11.5
World, all (MSCI)	382.3	+2.3	+4.0	+4.0
World bonds (Citigroup)	682.9	+1.1	+3.7	+3.7
EMBI+ (JPMorgan)	406.1	-0.2	-0.3	-0.3
Hedge funds (HFRX)	1,284.3	-0.3	+0.7	+0.7
Volatility, US (VIX)	22.9	30.7	11.6	(levels)
CDSs, Eur (iTRAXX)†	44.8	-16.6	+92.3	+97.1
CDSs, N Am (CDX)†	64.1	-19.7	+91.8	+91.8
Carbon trading (EU ETS) €	0.07	nil	-98.9	-98.9

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Pensions

Aug 23rd 2007
From The Economist print edition

Infographics

Greece has the most comprehensive mandatory pension scheme among rich countries, according to a report from the OECD. Future retirees can expect to receive pension benefits equivalent to 96% of their pre-retirement earnings. Workers in the Netherlands can look forward to a retirement that is nearly as well-cushioned. The projected entitlements are for a typical worker entering the system today who retires after a full career. They are based on schemes that are required by law, whether public or private. Mandatory benefits in Britain, Japan, Germany and America fall short of the OECD average. Workers in these countries will have to rely more on their private pension savings to live well in retirement.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.